

Montana Board of Housing

ANNUAL REPORT

FISCAL YEAR 2002-2003



*Housing
Matters*

Further information on our programs
may be obtained by writing:

Montana Board of Housing
301 S Park Ave Rm 240
PO Box 200528
Helena, MT 59620-0528
or by telephone (406) 841-2840

http://commerce.state.mt.us/housing/HOUS_Home.html



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Chairman and Executive Director's Message

We are pleased to present the Annual Report and Financial Statement of the Montana Board of Housing for fiscal year 2002-2003.

The past year has proven very interesting for the Board as well as the entire mortgage industry. We have realized the largest prepayments in the history of the Board because of the low interest rate environment in the market. We have also offered the lowest interest rates in our history (4.625%) and have been able to do so with no points to the qualifying borrower. Without the financial stability of the Board this would have not been possible.

The Board realizes the successes of our programs are due to the close relationships and hard work of our partners. These partners included brokers, trustees, attorneys, Realtors, banks and real estate lenders, builders, developers, non-profit housing providers and other governmental agencies. The Board has made mortgage loans in every county and city in the state through a partnership network of 280 origination banks and real estate lending offices.

The Board continues to meet the mission of providing decent, safe, sanitary and affordable housing for lower income individuals and families in the State of Montana. This can be seen by the activity in the programs the Board offers.

In the current year the Single Family Programs provided affordable mortgages to over 1,137 households in Montana. This included \$75 million in loans done through our regular program as well as \$9 million in loans done through our recycled programs which offer assistance to households, on average, earning less than \$20,000 per year. The Multifamily Programs provided over 220 units of rental housing through the Low Income Housing Tax Credits and Bond Loan Programs. This included the allocation of \$2,030,000 in low income tax credits generating approximately \$15,225,000 in equity for affordable rental units.

Monthly meetings and informational sessions were held in Billings, Big Sky, Red Lodge and Miles City to provide outreach to communities interested in participating in the Board's programs. We will continue this tradition to help better understand the needs of each different community.

By any measurement the Board's programs are a huge success. It exemplifies what can be achieved when all partners – public and private – have the same goals and objectives. We appreciate the commitment of the bankers, realtors and our other partners who will continue to be instrumental in creating public access to our programs. Together we have brought to our communities and Montana families essential economic and social benefits.

Sincerely,



Bob Thomas
Chairman



Bruce Brensdaal
Executive Director



Montana Board of Housing's mission – to provide mechanisms that enable Montanans to own or rent decent, safe, and sanitary housing that is within their financial capability – reflects our state's desire to improve the quality of life for Montanans. First-time homebuyers, families, single parents, senior citizens and disabled and special needs persons benefit from the Board's housing programs.

All of us have a role, whether large or small, in helping to narrow the gap between availability and demand of affordable housing. Being successful is crucial to our communities and the quality of life of our citizens. It is, however, equally important to our common effort to improve our economic vitality and create job opportunities for Montanans.

The economic benefits of housing in terms of such benchmarks as jobs, income, income tax revenues and property tax receipts are undisputed and substantial. However, another important point of reference is the fundamental role affordable housing plays when it comes to economic development. As one of the top ranking criteria used by businesses when looking at expansion and relocation, it helps them place a value on a community's desirability and make a judgment on its quality of life. I am sure that it will be no surprise to anyone that realizing to the fullest extent possible the objectives of our housing division is key to our economic development goals.

While our Housing Division and you, as one of their partners, have made significant and important gains in both of these areas, much more remains to be done. I know all of us are up to the challenge and the opportunity.

I am delighted to have the opportunity to work with you and the many public and private sector people, financial institutions and for-profit and non-profit organizations striving to make safe, decent and affordable housing the only option in Montana. Together we can continue to keep Montana as one of the states with the highest rate of home ownership, approximately 69%. Here the 'American Dream' is alive, well and do-able.

Sincerely,

A handwritten signature in black ink that reads "Mark Simonich". The signature is written in a cursive, flowing style.

Mark Simonich
Director
Montana Department of Commerce

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INTRODUCTION

The Montana Board of Housing was created by the Montana Housing Act of 1975. The Board is an agency of the State and operates within the Department of Commerce for administrative purposes.

Under the Housing Act the Board does not receive appropriations from the State's general fund and is completely self-supporting. Substantially all of the funds for Montana Board of Housing operations and programs are provided by the private sector through the sale of tax-exempt bonds.

Montana Board of Housing's public purpose is to provide decent, safe, sanitary and affordable housing for lower income individuals and families in the State of Montana. Montana Board of Housing accomplishes this purpose by issuing tax-exempt bonds, administering federal housing programs and working in partnership with many other housing providers throughout Montana.

**MONTANA BOARD OF HOUSING
301 S Park Ave Rm 240
P.O. Box 200528
HELENA, MONTANA 59620-0528**

THE BOARD

The powers of the Board are vested in a seven member Board, appointed by the Governor, subject to the confirmation of the State Senate. The majority of the board members' terms coincide with the four-year term of the Governor; the remaining board members serve four-year terms which expire in the middle of the Governor's term. The Chairman of the Board is appointed by the Governor and other officers of the Board are elected by the board members. Each Board member serves until a successor is appointed and confirmed by the State Senate.

The Board provides policy direction to the agency staff, authorizes bond issues, approves development financing and evaluates Montana Board of Housing Programs. The commitment of time and energy by Board members has resulted in an improved quality of life for thousands of Montana citizens. Their leadership is vital to the Montana Board of Housing's ability to meet Montana's housing needs.

In fiscal year 2002-2003 the Board provided over \$94 million in single family mortgage financing, helping 1,137 families obtain the dream of home ownership. The Board also allocated \$2.03 million in Low Income Housing Tax Credits for 220 units of rental housing.

THE BOARD OF HOUSING IS COMING TO SEE YOU

The Board frequently conducts its regular business meetings away from Helena. In addition, the Board invites local officials, legislators, housing advocates, developers, Realtors, and lenders, for a public information session. These meetings are intended to provide information to the public on the Board and its programs, as well as hear comments from the public about the Board and its programs. The Board has been to Billings, Red Lodge, Big Sky and Miles City in the last year, with many stops in between.

The Board also visits the sites of homes financed through its single family programs, and rental projects financed through the Low Income Housing Tax Credit and multifamily lending programs. These site visits give the Board a chance to see the housing and talk with people regarding the housing development.

Montana Board of Housing Staff

**Board Members
Staff
Legal & Professional Services**



Bob Thomas



Bob Savage



William Oser



Tom Welch



Stephen Redinger



Susan Moyer



Judy Glendenning



Bruce Brensdal
Executive Director

BOARD MEMBERS

Bob Thomas, Chairman is a retired insurance agency owner from Stevensville, Montana and a graduate of the University of Montana. Bob has served on the Board since 1991, and has been Chairman since 1993. Bob works with the Childhood Language Disorder Clinic at the University of Montana, sponsored by the Scottish Rite Fraternity.

Robert Savage, Vice Chairman is an attorney with the Savage Law Firm in Sidney, Montana and has a Bachelor of Arts degree and a Doctor of Jurisprudence degree from the University of Montana. Bob has served on the Board since 1993, and was also a director and President of the National Conference of State Housing Boards, Washington, D.C.

William Oser, Secretary, C.L.U. has lived in Montana and Wyoming most of his life, working for the Bureau of Reclamation and Shell Oil before going in to the insurance business in 1960, from which he retired in 1992. Bill is actively involved in the business community in Billings, Montana. Bill has served on the Board since 1993.

Tom Welch is the Chief Executive Officer and President of Pioneer Federal Savings and Loan in Dillon, Montana. He is a Montana native who is a graduate of the University of Montana and is active in a wide variety of local community activities and organizations. Tom has served on the board since March 1997.

Steve Redinger is the President and CEO of Intermountain Mortgage. Steve's vision of homeownership for Montana residents has materialized to become the state's largest mortgage banking firm. He leads teams of caring, professional lenders in eight offices across the Big Sky state. Steve has served on the Board since March, 2001.

Susan Moyer is currently the Community Development Director for the City of Kalispell and has spent her twenty-five year career with the city addressing affordable and adequate housing issues in her community through either renovation or new construction projects. Judy has served on the Board since January, 2003.

Judy Glenndening has been a Realtor since 1978 and is a Broker with Century 21 Heritage Realty. She also serves on the local and state association of Realtor Boards. Judy is a native of Montana and her husband Tom is employed by Bresnan Communications as the general manager for north central Montana. Judy has served on the Board since January, 2003.

MONTANA BOARD OF HOUSING STAFF

EXECUTIVE:



Diana Hall, Bruce Brensdal, Kellie Lynch

MULTIFAMILY PROGRAM:



Back: Justin Schedel, Lance Secora, Gerald Watne
Front: Mary Bair, Mathew Rude

SINGLE FAMLIY PROGRAM:



Back: Greg Bryan, Doug Jensen, Charlie Brown
Front: Jeannene Maas, Bob Morgan, Vicki Bauer

ACCOUNTING:



Back: Becky Johnson, Scott Hoversland, Vikki Gredyk
Front: Chris Bullman, Debby Phillips

BOARD GENERAL COUNSEL:

Luxan and Murfitt — Helena, MT

INDEPENDENT AUDITOR:

Legislative Audit Division — Helena, MT

BOARD BOND COUNSEL:

Kutak Rock — Omaha, NE

INVESTMENT BANKING TEAM:

UBS Financial Services Inc. — San Francisco, CA

D. A. Davidson and Co. — Great Falls, MT

RBC Dain Rauscher, Inc. — Minneapolis, MN

Merrill Lynch & Co. — New York, NY

U.S. Bancorp Piper Jaffray Inc — Minneapolis, MN

TRUSTEES:

U.S. Bank

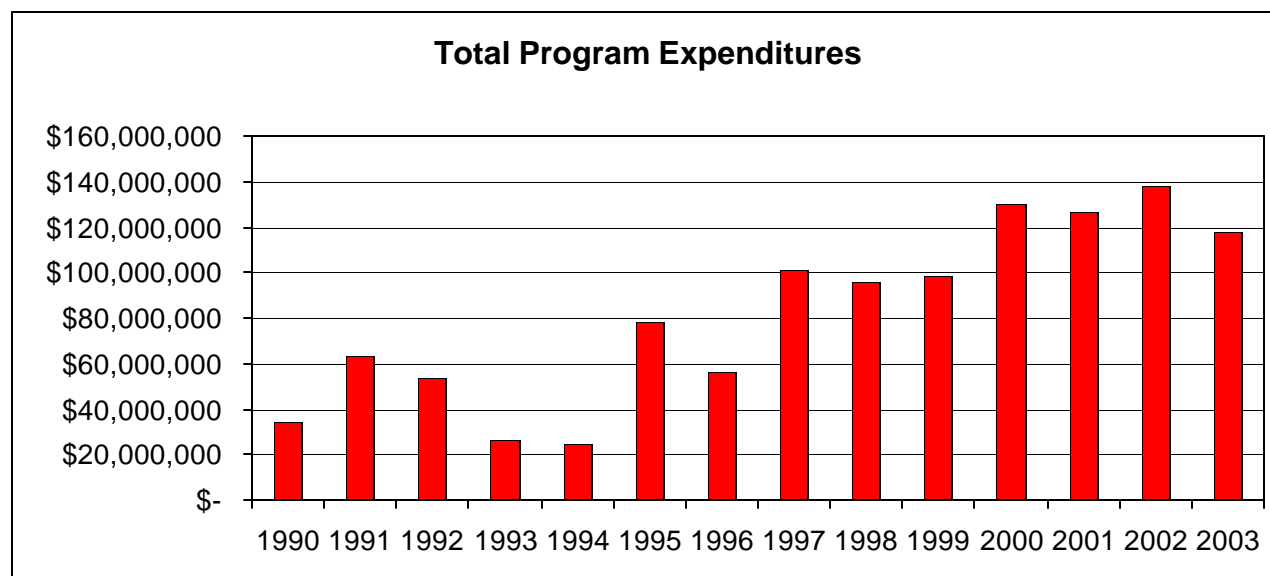
Wells Fargo Bank

ECONOMIC BENEFITS OF BOARD OF HOUSING PROGRAMS

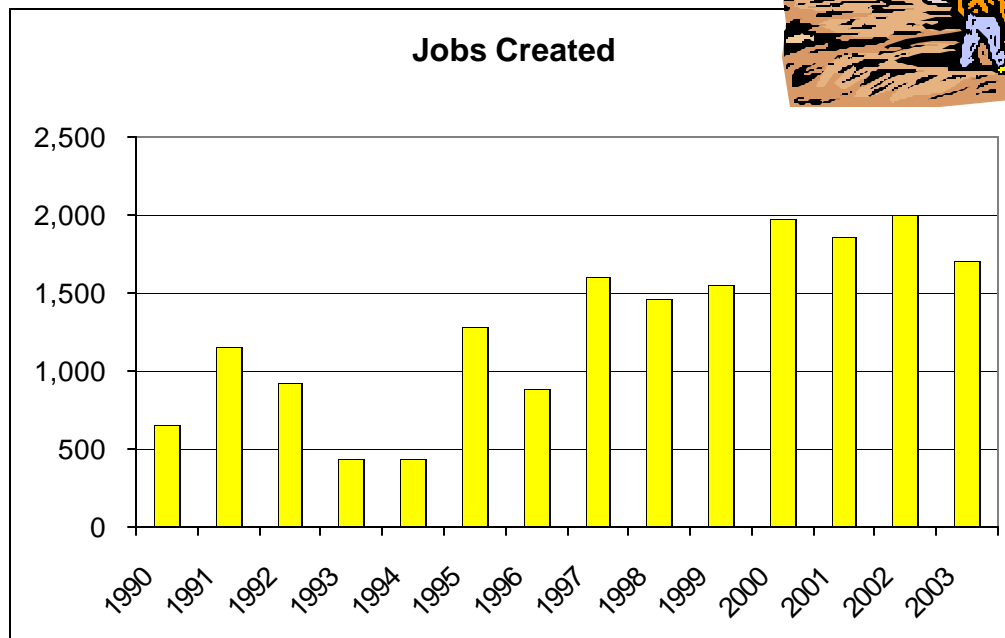
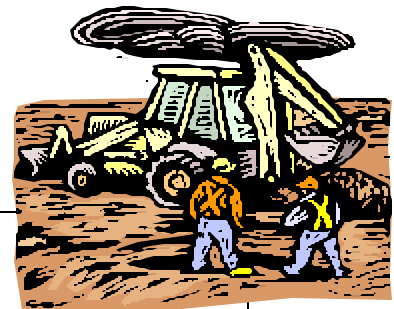
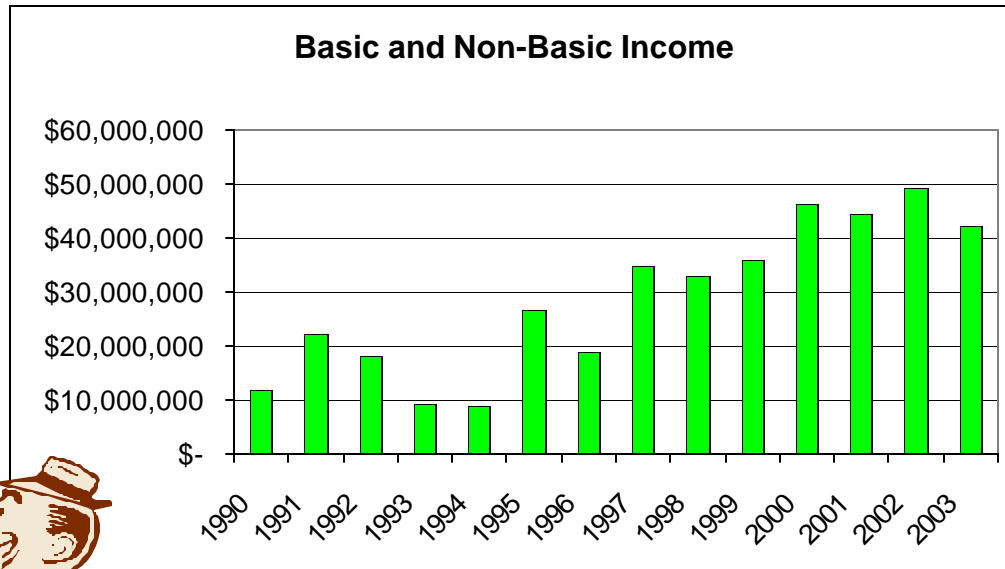
In October of 2002, the Department of Commerce published a study “Economic Benefits of MDOC Housing Program Activities”, prepared by Western Economic Services. The study provides information on the economic benefits for each of the housing programs in the Department, including the Montana Board of Housing. Based on this study the Board estimates its programs have provided an input into the economy (through the sale of bonds and the issuance of Low Income Housing Tax Credits) during federal plan year 2002 and 2003, of approximately \$117 million. This has resulted in the following:

- \$42,110,823 of basic and non-basic income generated. As program funds are spent, a portion of these funds become earnings for the “basic” workers; workers spending the basic income causes a predictable amount of non-basic employment and income. These two spending categories total the income generated from the program.
- 1,711 jobs created.
- \$1,118,877 paid in income taxes by workers because of the Board's housing programs (i.e., construction trades, banking, realty).
- \$25,668,138 in property taxes paid by property owners for housing built and purchased with the Board’s programs.

For more detailed information on this study, please contact the Board at 841-2840 for a copy of the complete study or access our website.

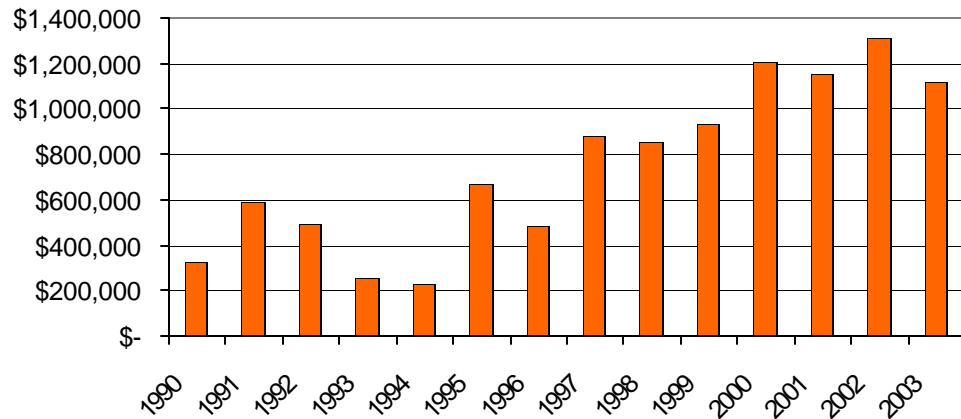


Economic Benefits

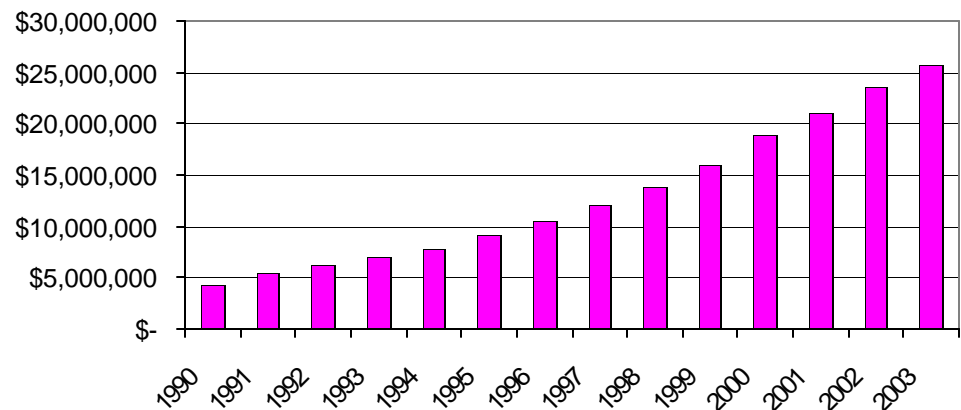


Economic Benefits

State Income Taxes Generated



State Property Taxes Generated



Single Family Programs

The Board has continuous funding.
Home buyers can purchase a home any time of the year.

SINGLE FAMILY MORTGAGE PROGRAM RECYCLED SINGLE FAMILY MORTGAGE PROGRAM MORTGAGE CREDIT CERTIFICATE (MCC) PROGRAM

The Board, during the course of fiscal year 2003, offered the Single Family Mortgage Program, the Mortgage Credit Certificate (MCC) Program, the Recycled Single Family Mortgage Program and the Disabled Accessible Affordable Housing Program (DAAHP). Over the past 26 years the Board has helped 33,022 individuals and families become homeowners.

This year the MBOH Single Family Programs purchased 1,137 loans.

SINGLE FAMILY MORTGAGE PROGRAM

The home financing program is exclusively supported from the sale of tax-exempt Mortgage Revenue Bonds issued periodically by the Board. The tax-exempt status allows the agency to pass along the interest savings to lower income persons and families in the form of low-interest home loans.

Mortgage loan applications are originated and processed in compliance with Federal Housing Administration (FHA), Veterans Affairs (VA) or the Rural Development (RD) Guaranteed Rural Housing Loan Program underwriting criteria by Board-approved Montana real estate lenders. The person or family reserves mortgage funds through an approved lender on a first-come first-serve basis with the Board.

The FHA insured, VA guaranteed or RD guaranteed mortgage is generally made for a term of 30 years. The mortgage interest rate is determined by the price the Board must pay to investors on the tax-exempt bonds. Each person or family, in addition to qualifying under the FHA, VA or RD requirements, must also meet certain program loan requirements and Federal Eligibility Requirements. Generally, the requirements for each person or family are as follows:

- The home is to be owner-occupied with limited business use of the property;
- The purchaser is to be a first-time home buyer except for certain targeted areas
- The purchase price of an existing home may not exceed the FHA maximum mortgage limit for the area;
- Family income may not exceed income limitations as established by the Board;
- The refinancing of an existing home loan is not permitted.
- The acquisition cost of a new home (lot, well, septic, construction cost) cannot exceed 135% of the FHA maximum mortgage limit for the area. The loan amount cannot exceed the FHA maximum mortgage limit for the area.

Over the years, the Board has developed many partnerships with local governments and non-profit agencies that assist borrowers with down payment and closing costs. These partnerships have enabled many families to purchase homes through the regular bond program, preserving the limited funding available in the recycled programs for those families that do not qualify under any other circumstances.

During the Fiscal Year ended June 30, 2003 the Board originated approximately \$85 million in mortgages, assisting 1,137 Montana families with home ownership. 900 of the mortgages were made with new bond funds, and 234 with recycled funds.

SINGLE FAMILY SINGLE FAMILY MORTGAGE CREDIT CERTIFICATE (MCC) PROGRAM

The Mortgage Credit Certificate (MCC) Program allows a qualified homebuyer to claim up to 20% of annual mortgage interest paid as a federal income tax credit. The remaining mortgage interest (80%) continues to qualify as an itemized deduction. As an example, let's say you take out a \$100,000 mortgage, at 6% interest. You will pay \$6,000 in interest the first year. Twenty percent of this amount, or \$1,200, can be used to directly reduce your federal income tax liability. This provides you with a dollar-for-dollar reduction of your federal income taxes! Unused credit can be carried forward up to three years.

To make things even better, you can file an amended W-4 with your employer, reducing your tax withholdings, and increasing your monthly income by \$100 (\$1,200 / 12). You can use this tax savings to help you qualify for your mortgage loan or to qualify for a larger mortgage loan amount.

The third and best benefit is that you will receive your federal income tax credit as long as you retain the same mortgage loan, and occupy the home as your primary residence.

The MCC may be used in conjunction with any conventional fixed rate or adjustable rate loan, FHA, VA, RD loans, or privately insured mortgage loans statewide, including loans made in Indian Country. The lender will establish all underwriting criteria, including interest rate, down payment requirement, term, fees, points, and closing costs. The MCC may also be used in conjunction with financing the purchase of Board-owned property. In this initial program in 2003, there will be \$10,000,000 in available credit authority, which will assist a minimum of 600 eligible homebuyers.

As with any program, there are qualifying rules and regulations. MCC eligibility requirements include being a new loan, first-time homebuyer, income limits, purchase price limits, business use limits, owner occupancy and recapture tax.

During the Fiscal Year ended June 30, 2003 the Board issued 5 Mortgage Credit Certificates. The program began operation in April 2003.

SINGLE FAMILY RECYCLED MORTGAGE PROGRAM

The Board has made additional mortgage funds available through the recycling of mortgage prepayments and other funds held under prior bond issues of the Single Family Mortgage Program. The Board's goal with the recycled funds is to assist those lower income persons and families that do not have the financial capabilities to purchase a safe and sanitary home through other Single Family Programs. Applications for recycled fund set asides are submitted through the Board's "Request for Proposal" process, on a monthly basis.

Since 1986, 3,299 families have achieved homeownership through financings with \$155,262,719 of recycled funds.

CITY OF BILLINGS AFFORDABLE FIRST-TIME HOME BUYERS PROGRAM

The Board set aside \$17,000,000 in recycled mortgage funds to provide the permanent financing for first-time home buyers in the city of Billings whose incomes do not exceed 60% of the median and for one reason or another do not qualify for traditional financing without assistance. The City of Billings will provide assistance for down payment, closing cost, mortgage buy down, and minor home repairs for low-income individuals who are currently unable to become homeowners. The City of Billings funds are provided through the Federal HOME Program under which the City is an entitlement community. This program has provided financing for 290 homebuyers, whose average income was \$20,490, with an average permanent loan amount of \$70,572 in fiscal year 2003.

GLACIER AFFORDABLE HOUSING FOUNDATION

The Board set aside \$8,450,000 in recycled mortgage funds to provide the permanent financing single family homes in Flathead, Glacier, Lake, Lincoln, Sanders and Yellowstone Counties for low and very low income individuals. The Foundation has been successful in obtaining a grant from the Federal Home Loan Bank for \$610,000 and grants from the HOME program totaling \$1,346,517 to provide down payment, closing cost, and mortgage buy down assistance. The Foundation also received CDBG grants totaling \$400,000 to provide additional assistance to low and very low-income individuals.

This program has provided financing for 132 homebuyers, whose average income was \$21,288, with an average permanent loan amount of \$48,378.

HUD SECTION 184 INDIAN HOUSING PROGRAM

The Board set aside \$1,000,000 in recycled mortgage funds to provide the permanent financing for single family homes located on trust land on an Indian Reservation that are guaranteed by HUD through Section 184 for Native Americans. The Board worked with local banks, tribal representatives, bond counsel, and state and regional HUD officials to get special consideration and guarantees from the Secretary of HUD in Washington D.C. to enable the Board to participate in this program. The Board has purchased nine loans where two of the residences are located on the Blackfeet reservation, five on the Flathead reservation, one on the Northern Cheyenne reservation and one on the Fort Peck Reservation.

DISABLED ACCESSIBLE AFFORDABLE HOME OWNERSHIP PROGRAM

The Board set aside \$9,550,000 to provide affordable architecturally accessible homes for people with permanent disabilities and mobility impairments. The Board has financed a total of 145 homes through June of 2003 with \$8,873,210 in recycled mortgage funds. The average household income is \$16,914 with an average loan amount of \$60,600. Loans are distributed among 22 Montana counties.

NEIGHBORHOOD HOUSING SERVICES, INC. OF GREAT FALLS (NHS) & NHS MONTANA HOMEOWNERSHIP NETWORK

NHS, a non-profit housing provider, has been in operation since 1980 and has had a major impact in revitalizing two neighborhoods in Great Falls and 51 other counties. In 1986 the Board began working with NHS offering affordable home ownership opportunities to lower income individuals and families. The Board has provided \$32,989,894 in permanent mortgages since 1986 for eleven separate low income home ownership programs sponsored by NHS. The various NHS programs have assisted 714 individuals and families in achieving affordable home ownership. The NHS Program was so successful in Great Falls that MBOH encouraged NHS and its various program participants to expand statewide. The Montana Homeownership Network (MHN) is an affiliate of NHS and its partners include Missoula Housing Corp., State Resource Conservation & Development Board, Natural Resource Conservation Service, USDA Rural Development, US Department of Housing and Urban Development, Assiniboine and Sioux Tribal Enterprise, Salish & Kootenai Housing Authority, Neighborhood Reinvestment, City of Great Falls, City of Billings, Fannie Mae MT Partnership Office, First Interstate BancSystem Foundation, Heritage Bank, US Bank, Wells Fargo Bank, Stockman Bank, Montana Building Industry Association, Montana REALTOR Association, Career Training Institute, Helena Area Housing Task Force, Helena Housing Development Corporation, Human Resource Development Councils, as well as MBOH.. MBOH has combined funding for MHN and NHS programs to reach as many Montanans as possible. MHN has received \$16.5 million and has provided financing for 260 families with very low incomes.

RURAL HOUSING LOAN LEVERAGING PROGRAM

The Board has set aside \$7 million of recycled funds for a proposal from Rural Development (RD) to leverage funds from RD with interest rates that range from 1.0% for borrowers whose income does not exceed 50% of the area median income, to 2.0% for borrowers whose income does not exceed 55% of the area median income, and to 3.0% for borrowers whose income does not exceed 60% of the area median income. In this program MBOH will purchase a first mortgage, (30 year, FHA insured VA guaranteed) for half of the loan. RD will make a loan secured by a second mortgage at a 1.0%, 2.0%, or 3.0% rate for the other half of the loan. This program has provided financing for 507 homebuyers, whose average income was \$21,100, with an average permanent loan amount of \$27,259. A total of \$15,073,569 has been provided for permanent mortgages.

Due to the success of the program and the request of rural development, the board expanded the program to include families whose income does not exceed 80% of the area median. The MBOH loan amount ranges from 10% to 50% keeping the monthly payment rate between 27% to 29% of income.



HABITAT FOR HUMANITY MORTGAGE REINVESTMENT PROGRAM

The Board has set aside \$2,700,000 for permanent mortgages for Habitat for Humanity Affiliate Member Families. This provides the local Habitat for Humanity Affiliate the ability to recover its construction cost from the home constructed and start construction on an additional home. The program is designed to allow the Habitat for Humanity Affiliates to double their production by each Affiliate building two homes instead of one. As of June 30, 2003 thirty-one homes for \$1,454,877 have been financed. The average incomes of the member families financed by the program have averaged \$20,781 and the permanent mortgages have averaged \$46,931.

FIRST-TIME HOME BUYER SAVINGS ACCOUNT PROGRAM

The Board established the program in November of 1997 for permanent mortgages for home buyers who have established a qualified savings account for downpayment and closing cost. To date the Board has committed financing for 130 home buyers whose incomes have averaged \$27,856 for homes that have an average purchase price of \$84,950.

NATIVE AMERICAN HOUSING LOAN GUARANTEE PROGRAM AMERICAN HOUSING LOAN GUARANTEE PROGRAM

The Board has set aside \$1,000,000 in recycled mortgage funds for the permanent financing of 20 to 30 homes on the Flathead Reservation. These loans will have the guarantee of the Tribal Housing Authority. These funds will constitute 40% of each financing and will leverage 60% of Rural Development Funds. This is a pilot program for tribal members in Indian Country to have an avenue to get involved in conventional home financing.

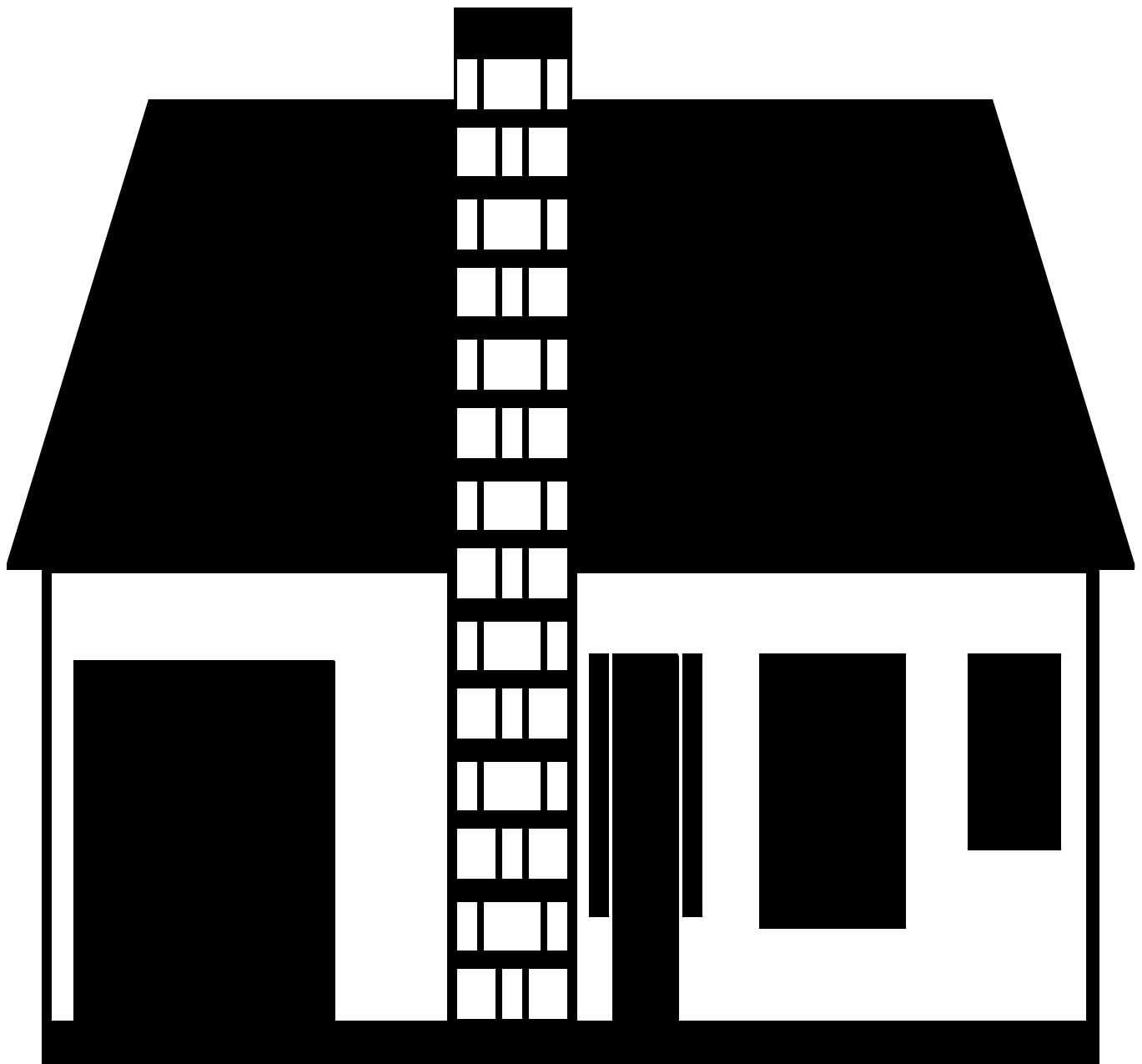
GREATER HELENA AREA AFFORDABLE HOME OWNERSHIP PROGRAM (GR8 HOPE) GREATER HELENA AREA AFFORDABLE HOME OWNERSHIP PROGRAM (GR8 HOPE)

Established in October, 2000, the Board set aside \$1,400,000 in recycled mortgage funds for the permanent financing for first-time homebuyers whose incomes are at or below 80% of the adjusted median income for Lewis and Clark County. The Helena Housing Development Corporation will provide down payment and closing cost loans ranging from \$5,000 to \$20,000, through the administration of funds received from the Federal HOME Program. Homebuyer education is a prerequisite to application for the down payment assistance.



DREAM MONTANA AFFORDABLE MANUFACTURED HOME PROGRAM

In May, 2002, the Board set aside \$1,500,000 in recycled mortgage funds for the permanent financing of manufactured homes in the River Rock subdivision at Belgrade. Under this program, the residents are purchasing the lot on which their existing manufactured housing unit is located, installing permanent foundations under the residences, bringing them into compliance with FHA guidelines, and refinancing the completed residence.



SINGLE FAMILY MORTGAGE PROGRAM LOANS PURCHASED BY COUNTY

County	Number Of Loans Purchased		FY2003 Activity	Original Loan Amount	
	Cumulative 4/1/77-FY2003			Cumulative 4/1/77-FY2003	FY2003 Activity
Beaverhead	121	4	\$	6,242,888	\$ 305,652
Big Horn	100	5	\$	4,427,603	\$ 263,592
Blaine	122	8	\$	5,086,207	\$ 259,319
Broadwater	92	1	\$	4,679,440	\$ 73,841
Carbon	131	9	\$	6,484,252	\$ 425,892
Carter	2	-	\$	91,000	\$ -
Cascade	5,240	211	\$	293,924,549	\$ 16,132,499
Choteau	54	3	\$	2,222,238	\$ 128,068
Custer	595	6	\$	22,540,265	\$ 353,619
Daniels	7	-	\$	200,680	\$ -
Dawson	378	11	\$	14,534,429	\$ 413,158
Deer Lodge	245	22	\$	10,112,564	\$ 1,212,392
Fallon	45	1	\$	1,781,439	\$ 43,350
Fergus	222	6	\$	9,054,813	\$ 317,975
Flathead	2,831	110	\$	173,497,698	\$ 9,584,528
Gallatin	1,152	63	\$	71,606,795	\$ 6,381,753
Garfield	6	1	\$	242,790	\$ 47,127
Glacier	145	3	\$	6,306,010	\$ 135,770
Golden Valley	8	-	\$	365,417	\$ -
Granite	14	-	\$	513,410	\$ -
Hill	937	50	\$	45,997,152	\$ 2,831,397
Jefferson	152	7	\$	8,487,371	\$ 519,762
Judith Basin	13	-	\$	493,023	\$ -
Lake	500	21	\$	27,524,893	\$ 1,631,179
Lewis and Clark	2,012	45	\$	112,584,506	\$ 3,676,938
Liberty	10	-	\$	375,839	\$ -
Lincoln	324	10	\$	14,866,312	\$ 653,165
McCone	21	-	\$	837,033	\$ -
Madison	66	4	\$	3,420,988	\$ 336,842
Meagher	48	1	\$	1,903,585	\$ 40,740
Mineral	96	5	\$	4,775,945	\$ 369,803
Missoula	3,653	84	\$	223,182,000	\$ 8,474,322
Musselshell	35	1	\$	1,530,501	\$ 59,529
Park	292	6	\$	13,549,807	\$ 477,005
Petroleum	1	-	\$	19,550	\$ -
Phillips	51	2	\$	2,120,573	\$ 92,655
Pondera	130	3	\$	5,080,282	\$ 49,389
Powder River	6	-	\$	245,375	\$ -
Powell	119	4	\$	5,624,068	\$ 253,113
Prairie	10	1	\$	396,670	\$ 20,046
Ravalli	488	26	\$	27,687,175	\$ 1,927,590
Richland	469	15	\$	19,523,649	\$ 567,407
Roosevelt	132	2	\$	5,348,312	\$ 125,984
Rosebud	86	2	\$	4,224,747	\$ 124,278
Sanders	76	3	\$	4,163,073	\$ 271,350
Sheridan	34	-	\$	1,234,251	\$ -
Silver Bow	1,072	82	\$	47,290,778	\$ 4,471,208
Stillwater	96	2	\$	5,217,023	\$ 61,049
Sweetgrass	46	1	\$	2,574,003	\$ 20,046
Teton	107	16	\$	5,122,616	\$ 634,058
Toole	118	10	\$	4,696,195	\$ 349,786
Treasure	1	-	\$	65,620	\$ -
Valley	165	4	\$	6,671,084	\$ 199,850
Wheatland	16	1	\$	606,153	\$ 85,441
Wibaux	6	-	\$	188,803	\$ -
Yellowstone	<u>7,538</u>	<u>265</u>	\$	<u>433,555,862</u>	<u>\$ 20,451,340</u>
STATE TOTAL	30,436	1,137	\$	1,675,099,304	\$ 84,853,807

HISTORY OF SINGLE FAMILY RECYCLED PROGRAMS

Neighborhood Housing Services	\$	17,895,841
Cash Assistance Programs	\$	27,310,100
Missoula Affordable Housing	\$	1,649,905
Human Resource Council XI	\$	72,166
Havre	\$	229,000
Billings Hi-Sierra	\$	473,413
City of Billings	\$	16,339,383
Dream Montana	\$	722,294
City of Kalispell	\$	2,249,924
Livingston	\$	443,706
Butte-Silver Bow	\$	1,674,794
Ronan 4-Plex	\$	118,200
Ronan Single Units	\$	1,015,700
Lewistown	\$	987,909
Glendive Affordable Housing	\$	173,480
Red Lodge	\$	367,990
Shelby	\$	341,134
Helena	\$	366,468
Laurel	\$	1,024,262
Disabled Accessible	\$	8,882,902
Western MT Mental Health	\$	2,022,675
Missoula Hillside	\$	916,424
FHA 203 (K)	\$	4,025,951
First time Homebuyer Savings	\$	10,563,155
Land Refi @6%	\$	82,000
Habitat 0%	\$	1,586,834
Glacier Affordable Housing	\$	6,985,229
Richland County	\$	97,900
Energy Loan	\$	2,679,049
Ravalli County	\$	1,114,548
HUD 184	\$	549,957
Native American Loan Guaranty	\$	15,000
Loan Leveraged	\$	14,931,289
Missoula Joint Venture	\$	<u>797,589</u>
Number of Loans - 3,299	TOTAL \$	155,262,719

Multifamily Loan Programs

Assistance in the development and retention of multifamily units for lower income Montanans has been accomplished through several multifamily loan programs.

**Multifamily Bond Program
Pilot Program for Multifamily Rental Housing
Risk Sharing Program for Multifamily Housing
G.O. Program for Multifamily Rental
Special Program Funds
Low Income Housing Tax Credit Program**



MULTIFAMILY BOND PROGRAM

The Board has issued several series of bonds to finance specific projects. In addition to financing projects from bond proceeds the Board has used funds within the indenture to finance projects. The following sections illustrate these programs.

PROJECTS FINANCED UNDER SECTION 8 "NEW CONSTRUCTION" PROGRAM AND OTHER HUD PROGRAMS

<u>Series and Project:</u>	<u>Location</u>	<u>Units</u>	<u>Original Principal Amount</u>	<u>Construc- tion Loan Rate</u>	<u>Permanent Mortgage Loan Rate</u>
<u>1978 Series A:</u>					
Clark Fork Manor	Missoula	<u>134</u>	<u>\$ 4,628,000</u>	8.0%	7.0%
<u>1979 Series A (1992 Series A):</u>					
Crestwood Inn	Sidney	72	2,188,500	9.0%	7.5%
Silver Bow Village	Butte	60	1,925,000	8.5%	7.5%
Broadview Manor	Great Falls	20	713,200	8.5%	7.5%
		<u>152</u>	<u>4,826,700</u>		
<u>1982 Series A (1992 Series A):</u>					
Grand View Place	Missoula	<u>48</u>	<u>1,695,200</u>	12.0%	12.0%
<u>Other:</u>					
Miles Building - Bld	Livingston	40	1,081,885	14.5%	NA
		<u>40</u>	<u>1,081,885</u>		
<u>1980 Series A Construction Loan Notes:</u>					
Cedar View	Malta	32	1,269,900	11.0%	NA
Chair III	Whitefish	16	618,400	11.0%	NA
El Dorita Village	Kalispell	36	1,092,000	11.0%	NA
Rose Park Plaza	Billings	112	3,222,100	11.0%	NA
		<u>196</u>	<u>6,202,400</u>		
		<u>648</u>	<u>\$20,804,685</u>		

PILOT PROGRAM FOR MULTIFAMILY RENTAL HOUSING

In February of 1993, the Board introduced its Pilot Program for Rental Housing by seeking proposals from governmental units, non-profits attached to governmental units and private non-profits to develop multifamily rental housing. These projects were funded with monies in the Multifamily Trust Indenture.

Since its inception the Board has loans through the Multifamily Pilot Program for Rental Housing to non-profit and governmental sponsors for the following projects:

<u>Project:</u>	<u>Location</u>	<u>Units</u>	<u>Original Principal Amount</u>	<u>Permanent Mortgage Loan Rate</u>
<u>LOANS CLOSED</u>				
Minnesota - pd.	Missoula	2	\$ 42,000	6%
Strand	Missoula	2	\$ 64,000	6%
Ronan Duplex	Ronan	2	\$ 86,963	6%
Ronan 4-Plex	Ronan	4	\$ 121,933	6%
Courtyard	Kalispell	16	\$ 271,000	6%
Bozeman Interfaith	Bozeman	9	\$ 227,557	6%
Holland Park	Great Falls	16	\$ 266,000	6%
Spring Garden	Billings	8	\$ 121,000	6%
		<u>59</u>	<u>\$ 1,200,453</u>	

RISK SHARING PROGRAM FOR MULTIFAMILY HOUSING

On June 13, 1994 the Board received final approval from the Department of Housing and Urban Development (HUD) to participate in the Risk Sharing Program. The Risk Sharing Program works in partnership with HUD, whereby HUD provides mortgage loan insurance and the Board provides mortgage underwriting and loan management as well as financing, and the two entities share the risk of loss from a project default. Some of these loans are funded with bond proceeds, and some are funded with monies in the Indenture. Currently the Board has the following projects:

<u>Project:</u>	<u>Location</u>	<u>Units</u>	<u>Original Mortgage</u>	<u>Rate</u>
<u>CLOSED LOANS</u>				
West Babcock	Bozeman	24	\$ 830,000	7.25%
Phillips Apts.	Missoula	8	\$ 269,000	6.00%
The Miles Building	Livingston	40	\$ 550,000	6.00%
Big Sky Manor	Kalispell	60	\$ 797,436	9.75% Taxable
Columbia Villa	Columbia Falls	36	\$ 781,635	4.59%
Darlington Manor	Bozeman	100	\$ 2,406,305	4.59%
La Vatta Villa	Deer Lodge	24	\$ 437,147	4.59%
Parkside Village	Missoula	104	\$ 3,233,511	4.59%
Valley View	Kalispell	52	\$ 1,141,402	4.59%
Green Meadow Manor	Libby	34	\$ 402,564	9.75 Taxable
		482	\$ 10,849,000	

(all Risk sharing loans also have a .5% MIP payment in addition to mortgage rate)

G.O. PROGRAM FOR MULTIFAMILY RENTAL HOUSING

The Board's General Obligation (G.O.) Program for Multifamily Rental Housing provides mortgage financing to owners of qualifying housing when the owner agrees to restrict the rents to a specific amount, and to rent only to tenants below a maximum income level (generally 50 or 60% of median income). Currently this program is financing the permanent loans for small projects which receive multiple sources of funding through other programs, where rents on the project are affordable to very low income state residents. This program is being funded through the Board's first ever G.O. bond issue in 1998. The G.O. rating of A2 allows the Board to issue bonds to finance projects which rating agencies would not rate highly on a stand-alone basis. The G.O. rating allows the Board to use its financial and management strength to leverage projects that would otherwise be impossible to finance. Currently the Board has the following projects:

<u>Project:</u>	<u>Location</u>	<u>Units</u>	<u>Original Mortgage</u>	<u>Rate</u>
<u>G.O. PROGRAM FOR MULTIFAMILY RENTAL HOUSING:</u>				
<u>CLOSED LOANS</u>				
Whitefish Apartments	Whitefish	4	\$138,037	6.00%
Pond Row	Bozeman	20	\$567,500	7.00%
Cottages at Edna Court	Superior	8	\$128,000	6.5%
Parkside Apartments	Hamilton	24	\$225,000	5.50%
		56	\$1,058,537	<i>(rate bought down from 6%)</i>

Special Program Funds

Periodically the Board receives funding requests for projects which do not fit in to any of the categories for funding with bond proceeds. The Board has a commitment to funding projects with specific targeting to housing needs the Board might miss through its established programs. As these special project needs are identified, the Board determines whether funds are available within any of the indentures, and provides mortgage funding. Typically the Board's loan is significantly less than 50 percent of the total cost of the project.

SPECIAL PROGRAM FUNDS

CLOSED LOANS

		<u>units</u>		
Samaritan House	Kalispell	80	\$ 85,000	6.00%
Safe House	Hamilton	10	\$102,323	6.00%
		<u>90</u>	<u>\$187,323</u>	

LOW INCOME HOUSING TAX CREDIT PROGRAM

The Low Income Housing Tax Credit (LIHTC), established by Congress in the Tax Reform Act of 1986, is intended to provide for the retention, rehabilitation and construction of low income rental housing. Through the tax credit, developers and owners of qualified housing receive an annual federal tax credit for 10 years, based on the number of housing units provided to low income individuals and families.

In Fiscal Year 2002-2003, the Board allocated \$2,030,000 in tax credits to assist in the development of seven projects containing 224 low income housing units with total projected development costs of \$24,559,268. Since the inception of the program in November, 1987, the tax credit has been utilized in the rehabilitation and production of 4,166 low income housing units in 148 separate projects with total construction costs of \$253,585,769. This comprises over 50% of multifamily rental housing development in the state.

Low Income Housing Tax Credit Program 1987 through June 30, 2003				
City	Number of Developments	Number of LIHTC Units	LIHTC Allocated	Total Development Costs
Absorakee	1	32	\$ 15,134	\$ 755,867
Belgrade	4	84	\$ 322,250	\$ 4,279,966
Big Fork	1	32	\$ 46,963	\$ 1,488,538
Big Sky	2	48	\$ 205,749	\$ 2,559,787
Big Timber	1	24	\$ 36,186	\$ 1,149,013
Billings	15	536	\$ 2,488,306	\$ 28,817,882
Box Elder	1	31	\$ 252,295	\$ 2,897,783
Bozeman	10	438	\$ 2,686,021	\$ 31,130,585
Browning	2	55	\$ 777,677	\$ 6,871,884
Butte	2	68	\$ 375,712	\$ 5,054,364
Chester	1	6	\$ 3,030	\$ 275,296
Chinook	1	12	\$ 7,156	\$ 201,224
Columbia Falls	4	92	\$ 171,913	\$ 5,231,174
Corvallis	2	36	\$ 316,969	\$ 3,160,249
Cut Bank	1	19	\$ 31,659	\$ 1,034,474
Darby	2	16	\$ 162,500	\$ 1,699,659
Deer Lodge	2	48	\$ 42,673	\$ 1,404,865
Dillon	1	24	\$ 190,535	\$ 2,087,831
Elmo	1	10	\$ 64,000	\$ 455,136
Fort Benton	1	10	\$ 13,938	\$ 355,562
Forsyth	2	36	\$ 54,228	\$ 1,724,391
Fort Belknap	1	11	\$ 52,800	\$ 834,415
Glasgow	1	6	\$ 9,780	\$ 298,101
Great Falls	6	294	\$ 1,083,018	\$ 18,109,015
Hamilton	4	118	\$ 641,806	\$ 7,933,042
Hardin	2	40	\$ 77,324	\$ 1,937,806
Havre	7	30	\$ 32,660	\$ 873,588
Hays	1	11	\$ 52,800	\$ 834,415
Helena	6	210	\$ 1,252,615	\$ 15,204,518
Hysham	1	12	\$ 28,373	\$ 765,857
Joliet	1	1	\$ 1,409	\$ 35,313
Kalispell	10	373	\$ 1,268,890	\$ 19,960,615
Laurel	2	40	\$ 176,345	\$ 2,273,121
Libby	1	34	\$ 167,502	\$ 2,791,239
Livingston	3	82	\$ 257,188	\$ 4,342,566
Medicine Lake	1	4	\$ 3,595	\$ 78,576
Miles City	1	32	\$ 61,215	\$ 2,085,110
Missoula	18	695	\$ 2,857,721	\$ 41,283,843
Pablo	5	99	\$ 916,906	\$ 9,732,156
Plains	1	9	\$ 11,600	\$ 310,923
Polson	3	102	\$ 204,500	\$ 4,889,989
Redlodge	1	32	\$ 178,520	\$ 2,135,786
Ronan	4	43	\$ 193,317	\$ 2,114,463
Scoby	1	11	\$ 13,980	\$ 612,000
Shelby	1	12	\$ 16,960	\$ 487,300
St. Ignatius	1	9	\$ 11,000	\$ 264,260
Stevensville	1	30	\$ 37,178	\$ 1,044,900
West Yellowstone	1	53	\$ 178,193	\$ 2,563,215
Whitefish	5	110	\$ 475,517	\$ 6,884,629
Winnett	1	6	\$ 9,626	\$ 269,478
Total	148	4166	\$ 18,537,232	\$ 253,585,769

Affordable Housing Revolving Loan Fund

The 1999 Legislature found that current economic conditions, federal housing policies, and declining resources at the federal, state, and local levels adversely affect the ability of low-income and moderate-income persons to obtain safe, decent, and affordable housing. Because of this, the Affordable Housing Revolving Loan Fund was established.

This fund will be used to provide loans to projects providing affordable housing in Montana. These projects will typically need that last small piece of financing to make them feasible.

The Montana Board of Housing did receive a \$1,500,000 grant from the Federal Home Loan Bank of Seattle through its Affordable Housing Program. This grant was specifically earmarked for the Montana Preservation Project. In order to maximize other funding sources the grant was loaned, by the Board, to each project as 50 years deferred mortgages. If a project generates additional income the loans may begin to pay back the money. But if sufficient income is not generated the loans will not be paid for 50 years. The Board has placed these mortgages in the Affordable Housing Revolving Loan Fund. But as previously stated, these loans may or may not begin to be repaid for 50 years. The following is a list of these loans:

PROJECT	LOCATION	AMOUNT
A. Columbia Villa	Columbia Falls	\$ 316,800
B. Darlinton Manor	Bozeman	\$ 55,000
C. LaVatta Villa (Pebblestone Square)	Deer Lodge	\$ 60,000
D. Parkside Village	Missoula	\$ 10,400
E. Valley View (Valley View)	Kalispell	\$ 551,200
F. Big Sky Apts.	Kalispell	\$ 202,368
G. Green Meadow Apts.	Libby	\$ 234,600
H. Parkside Apartments	Hamilton	\$ 69,632
I. Gold Dust	Missoula	\$ 143,000
J. TANF Loans (8 loans, dwn pmt/closing)	Various	\$ 40,233
		<u>\$1,683,233</u>

The 2001 legislature added three other funding sources to the affordable Housing Revolving Loan Fund. Two sources are \$500,000 from the Section 8 reserve account and approximately \$3.4 million from the Temporary Assistance to Needy Families grant (TANF). These two funding sources are transfers from existing programs. The third source is from direct donations that would qualify for a tax credit. These sources began July 1, 2001. The TANF funds were reduced to \$700,000 by the 2002 special legislative session which met in August of 2002.

Reverse Annuity Mortgage "RAM"



Reverse mortgages allow eligible Montana homeowners to borrow against the equity in their homes. The homeowner is reversing the process of when they bought their home. At that point in their life they had income and wanted equity. Now they have equity and want the income. The homeowner receives monthly payments to increase their cash flow. The loans do not require repayment as long as the homeowner remains in the home.

Montana Board of Housing Reverse Annuity Mortgage Program

PURPOSE: Many senior citizens in Montana own their own homes, and have little or no remaining mortgage debt. Many of these homeowners are persons of lower income who would benefit from an additional income source from the use of equity in their homes. The reverse annuity mortgage loans would enable senior homeowners to provide more substantially for their own in-home support and specialized care.

Mortgage Interest Rate: 5.0%

Age Requirement: All borrowers to be 68 years of age or older. Some exceptions may be considered.

Income Limit: The Borrower's Annual Family Income must not exceed the following:

1 person household	\$17,960
2 person household	24,240
3 person household and up	30,520

Property Eligibility: The home must be located in Montana. The borrowers must be the owner and occupant of a single-family dwelling that is unencumbered by any prior mortgage, lien or pledge. A single-family dwelling means a one-to-four-family living unit, excluding a single-wide mobile home. A single-family dwelling must meet minimum FHA property standards as determined by an FHA appraisal.

Loan Amount: The loan amounts range from a minimum of \$15,000 to a maximum of \$70,000. The maximum loan amount is determined based on 80% of the FHA determined property value.

Payment Terms: The net loan proceeds are advanced monthly to the borrowers based on a ten-year term.

Lump Sum Advances: Lump sum advances are available at loan closing. \$2,500 is available for such items as payment of prior mortgages, liens, pledges or for needed repairs to the home. Some exceptions may be considered. An advance is available for certain loan closing costs. Lump sum advances reduce the amount of the monthly loan advance.

Counseling: Potential borrowers must complete a reverse annuity mortgage counseling program in order to submit an application. The counseling network is provided through the Montana Aging Services Network.

Applications: Applications may be obtained by contacting the Montana Board of Housing, PO Box 200528, Helena, MT 59620-0528, telephone 841-2840, 1-800-761-6264 or the Office on Aging, PO Box 204001, Helena, MT 59620-4001, telephone 1-800-332-2272. The applications may be completed during the required reverse annuity mortgage counseling.

REVERSE ANNUITY MORTGAGE

PROGRAM STATISTICS

<u>COMMUNITY</u>	<u>NUMBER OF LOANS</u>	<u>HOLD SIZE</u>	<u>HOUSE BORROWER AGE</u>	<u>AVERAGE LOAN AMOUNT</u>	<u>AVERAGE ANNUAL INCOME</u>	<u>AVERAGE MONTHLY PAYMENTS</u>
Alberton	1	1	77	\$40,000	\$9,232	\$192.11
Ashland	1	1	64	\$20,800	\$6,168	\$94.57
Belgrade	2	1, 2	70 to 80	\$60,000	\$12,810	\$285.80
Big Timber	1	1	80	\$47,200	\$9,288	\$285.80
Billings	8	5@1, 3@2	76 to 87	\$50,350	\$9,818	\$246.67
Bozeman	3	1, 1, 1	77 to 88	\$63,333	\$12,363	\$355.04
Butte	4	1, 2, 2, 1	72 to 80	\$36,100	\$10,620	\$201.30
Circle	1	1	75	\$50,000	\$9,348	\$258.33
Columbus	2	2, 1	79 & 85	\$50,000	\$15,334	\$285.80
Cut Bank	1	2	80 & 84	\$65,600	\$17,802	\$412.23
Darby	1	2	83 & 83	\$70,000	\$12,045	\$413.28
Deer Lodge	1	1	76	\$51,200	\$6,368	\$317.84
Dillon	2	1, 2	78 & 78	\$35,520	\$7,056	\$206.83
Glendive	1	1	74	\$70,000	\$21,337	\$376.47
Great Falls	12	9@1, 3@2	70 to 81	\$56,767	\$11,681	\$295.14
Hamilton	3	1, 1, 2	65 to 74	\$45,000	\$11,781	\$285.82
Havre	2	1, 2	77 to 80	\$34,000	\$14,070	\$183.19
Helena	4	1, 2, 1, 1	74 to 78	\$55,000	\$13,271	\$307.06
Joliet	1	1	73	\$60,000	\$16,006	\$341.13
Kalispell	4	2, 1, 2, 1	72 to 84	\$45,750	\$11,031	\$256.72
Laurel	1	2	83 & 84	\$40,240	\$11,039	\$223.31
Libby	1	2	76 & 86	\$50,000	\$14,712	\$285.80
Livingston	3	1, 1, 2	81 to 85	\$63,334	\$9,126	\$369.02
Malta	1	1	70	\$16,800	\$5,280	\$64.50
Manhattan	1	1	71	\$50,000	\$8,944	\$408.00
Missoula	5	1, 1, 1, 1, 3	70 to 86	\$43,700	\$10,819	\$235.95
Polson	1	1	81	\$40,000	\$7,696	\$222.83
Reygate	1	1	87	\$44,000	\$8,034	\$255.77
Shelby	1	1	75	\$50,000	\$9,330	\$285.80
Sheridan	4	2, 2, 1, 2	79 to 84	\$69,100	\$14,671	\$448.92
Sidney	2	2, 2	67 to 87	\$42,400	\$15,496	\$432.87
Somers	1	1	71	\$25,000	\$5,314	\$136.68
Stevensville	2	1, 1	72 to 75	\$49,400	\$11,473	\$139.06
Townsend	1	1	85	\$32,000	\$10,229	\$170.51
Virginia City	1	2	71 & 69	\$50,000	\$18,101	\$320.66

No. of People helped: 112

July 1, 2002 - June 30, 2003 PROGRAM ACTIVITY

NEW LOANS	10
PREPAID LOANS	<u>5</u>
TOTAL	15

OVERALL PROGRAM ACTIVITY & AVERAGES

ACTIVE LOANS:	43	AVERAGE AGE OF BORROWER:	78
PENDING LOANS:	3	AVERAGE ANNUAL INCOME OF BORROWER:	\$11,536.83
PREPAID LOANS:	38	AVERAGE LOAN AMOUNT:	\$50,455.31
TOTAL LOANS:	84	AVERAGE MONTHLY PAYMENT TO BORROWER:	\$263.15

Accounting and Reporting

The accounting and reporting function at the Board accounts for approximately 10,100 mortgages totaling in excess of \$592 million. This includes reconciling all mortgages on a monthly basis from reports received from approximately 40 contracted loan servicers. This year the staff also accounted for \$125 million in mortgage prepayments and repayments according to Indenture direction. The accounting staff accounts for principle and interest on bonds payable of approximately \$625 million in 23 bond issues. In addition, the staff processed \$211 million in bond calls and maturities in fiscal year 2003. The accounting staff also accounted for investment purchases of approximately \$649 million, and maturities and sales of approximately \$652 million.

Appendix A

MONTANA BOARD OF HOUSING

FINANCIAL REPORT

JUNE 30, 2003

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

To The Board of Directors
Montana Board of Housing
Helena, Montana:

We have audited the accompanying Statement of Net Assets of the Montana Board of Housing, a component unit of the state of Montana, as of June 30, 2003 and 2002, and the related Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows for the fiscal years then ended. The information contained in these financial statements is the responsibility of the board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana Board of Housing as of June 30, 2003 and 2002, and the results of its operations and its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole. The Combining Statement of Net Assets as of June 30, 2003, and the related Combining Statement of Revenues, Expenses, and Changes in Net Assets and Combining Statement of Cash Flows for the fiscal year then ended, are presented for purposes of additional analysis and are not a required part of the financial statements of the Montana Board of Housing. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The accompanying Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The other data included in this report was not audited by us and, accordingly, we express no opinion on such data.

Respectfully submitted,

Signature on File

James Gillett, CPA
Deputy Legislative Auditor

October 2, 2003

MONTANA

Department of Commerce

MONTANA BOARD OF HOUSING
P.O. Box 200528 • Helena, Montana 59620-0528
Phone: 406-841-2840 • Fax: 406-841-2841 • TDD: 406-841-2702
<http://commerce.state.mt.us>

Management Discussion and Analysis Year Ended June 30, 2003

This section of the Montana Board of Housing's (MBOH's) annual financial report presents our discussion and analysis of the agency's financial performance during the fiscal year ended June 30, 2003. Please read this section in conjunction with the financial statements and accompanying notes.

Financial Highlights

- 1,137 single-family mortgages were originated for \$85 million.
- 2,156 single-family mortgages prepaid for \$125 million.
- No multi family mortgages were originated.
- 1 multi family mortgage paid off.
- Total new debt issued was \$145.5 million.
- Total debt retired was \$211 million.
- Total outstanding debt decreased from \$691 million to \$625 million.
- \$2,030,000 of Low Income Tax Credits were allocated providing approximately \$15 million of equity to produce or preserve 244 units of affordable rental housing.
- 10 new Reverse Annuity Mortgage (RAM) Loans were originated bringing the total active RAM loans to 43. Since its inception the RAM program has assisted 81 elderly households.

Overview of the Financial Statements

The MBOH is a self-supporting entity using no general fund appropriations to operate. The MBOH is classified as an enterprise fund, that is, a fund that is financed and operated in a manner similar to a private business enterprise.

The financial statements are designed to provide the stakeholders of the MBOH, our citizens, taxpayers, legislatures, customers, clients, investors and creditors, with an overview of the finances of the organization and to demonstrate our accountability for the resources we are entrusted with.

Financial Analysis
Change in Net Assets and Operating Income
Years ending June 30, 2002 and 2003

		<u>2003</u>	<u>2002</u>	<u>% inc (dec)</u>
Assets:				
Current Assets	(1)	\$ 56,233,674	\$ 63,351,291	-11.24%
Noncurrent Assets	(2)	\$ 703,251,777	\$ 754,645,740	-6.81%
Total Assets		\$ 759,485,451	\$ 817,997,031	-7.15%
Liabilities:				
Current Liabilities	(3)	\$ 14,328,690	\$ 43,522,411	-67.08%
Noncurrent Liabilities	(4)	\$ 615,626,922	\$ 652,917,880	-5.71%
Total Liabilities		\$ 629,955,612	\$ 696,440,291	-9.55%
Net Assets:				
Invested in Capital Assets		\$ 113,761	\$ 153,883	-26.07%
Restricted		\$ 129,416,078	\$ 121,402,857	6.60%
Total Net Assets		\$ 129,529,839	\$ 121,556,740	6.56%
Operating Revenue:				
Interest on Loans		\$ 40,852,401	\$ 41,605,273	-1.81%
Earnings from Investments	(5)	\$ 11,955,945	\$ 10,815,722	10.54%
Fees and Charges		\$ 524,672	\$ 479,811	9.35%
Total Operating Revenue		\$ 53,333,018	\$ 52,900,806	0.82%
Operating Expenses:				
Bond Expenses		\$ 41,205,955	\$ 42,274,661	-2.53%
Servicing Fees		\$ 2,301,388	\$ 2,285,778	0.68%
General and Administrative		\$ 1,852,576	\$ 1,835,248	0.94%
Total Expenses		\$ 45,359,919	\$ 46,395,687	-2.23%
Operating Income		\$ 7,973,099	\$ 6,505,119	22.57%
Non-operating Income:				
Transfer from Primary Government	(6)	\$ -	\$ 500,000	-100.00%
Change in Net Assets		\$ 7,973,099	\$ 7,005,119	13.82%

- (1) Current assets decreased by \$7,117,617. This was due to investments being held as short term for the Draw Down bonds in 2002 but not in 2003.
- (2) Noncurrent assets decreased by \$51,393,963. This is due to the prepayment of single family mortgages in 2003 being \$125 million compared to \$63 million in 2002.
- (3) Current liabilities decreased by \$29,193,721. This is because of \$26,960,000 of Draw Down bonds that were outstanding at 2002 year end and were paid off in July, 2002. No Draw Down bonds were outstanding for 2003.
- (4) Noncurrent liabilities decreased by \$37,290,958. This was caused by increased prepayments on mortgages that resulted in increased bond calls reducing our liability.
- (5) Earnings from investments increased by \$1,140,223. This was due to the unrealized net increase in the fair value of investments.
- (6) House Bill 57 of the 2001 Montana Legislature directed the transfer of \$500,000 from the Section 8 reserve account. These funds are being used in the Housing Revolving Loan Account.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2003 AND 2002

ASSETS	FY 2003	FY 2002
Current Assets		
Cash and Cash Equivalents (Note 2)	\$ 7,756,487	\$ 4,938,346
Investments (Note 4)	32,975,198	42,223,135
Mortgage Loans Receivable (Note 5)	10,296,404	10,754,012
Interest Receivable	5,028,326	5,260,307
Due from State Government	2,634	-
Prepaid Expense	174,625	175,491
Total Current Assets	\$ 56,233,674	\$ 63,351,291
Noncurrent Assets		
Investments (Note 4)	\$ 114,774,824	\$ 106,765,083
Mortgage Loans Receivable (Note 5)	582,059,142	641,024,258
Deferred Bond Issuance Costs, Net	6,304,050	6,702,516
Capital Assets, Net (Note 7)	113,761	153,883
Total Noncurrent Assets	\$ 703,251,777	\$ 754,645,740
TOTAL ASSETS	\$ 759,485,451	\$ 817,997,031
LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 476,111	\$ 471,978
Due to State Government	27,733	68,659
Due to Other Component Units	3,648	-
Property Held in Trust	709,505	525,295
Accrued Interest - Bonds Payable	3,422,051	3,866,992
Bonds Payable, Net (Note 8)	9,168,966	37,972,760
Arbitrage Rebate Payable to U.S. Treasury Department (Note 12)	463,413	569,833
Accrued Compensated Absences	57,263	46,894
Total Current Liabilities	\$ 14,328,690	\$ 43,522,411
Noncurrent Liabilities		
Bonds Payable, Net (Note 8)	\$ 616,381,498	\$ 652,921,943
Deferred Refunding Costs	(1,461,389)	(971,600)
Arbitrage Rebate Payable to U.S. Treasury Department (Note 12)	673,315	933,115
Accrued Compensated Absences	33,498	34,422
Total Noncurrent Liabilities	\$ 615,626,922	\$ 652,917,880
TOTAL LIABILITIES	\$ 629,955,612	\$ 696,440,291
NET ASSETS		
Invested in Capital Assets, Net	\$ 113,761	\$ 153,883
Restricted for Bondholders (Note 1 & 10):		
Unrealized (losses) gains on investments	3,805,542	1,505,336
Single Family Programs	91,857,673	89,527,524
Various Recycled Mortgage Programs	21,898,843	18,706,508
Multifamily Programs	7,985,246	7,726,557
Multifamily Project Commitments	244,644	228,330
Reverse Annuity Mortgage Program	1,500,125	1,666,924
Restricted for Affordable Revolving Loan Program	1,759,005	1,898,678
Revolving Loan Program Commitments	365,000	143,000
TOTAL NET ASSETS	\$ 129,529,839	\$ 121,556,740

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

	FY 2003	FY 2002
OPERATING REVENUES		
Interest Income - Mortgage Loans	\$ 40,852,401	\$ 41,605,273
Interest Income - Investments	9,655,738	10,224,635
Fee Income	229,872	234,504
Federal Financial Assistance	242,171	240,140
Net Increase (Decrease) in Fair Value of Investments	2,300,207	589,650
Grants and Contributions	42,733	-
Other Income	9,896	5,167
Securities Lending Income	-	1,437
Total Operating Revenues	<u>\$ 53,333,018</u>	<u>\$ 52,900,806</u>
OPERATING EXPENSES		
Interest on Bonds	\$ 39,405,348	\$ 40,521,800
Service Fees	2,301,388	2,285,778
Contracted Services	551,173	556,904
Amortization of Bond Issuance Costs	462,583	391,443
General and Administrative	1,301,403	1,277,057
Securities Lending Expense	-	1,287
Arbitrage Rebate Expense	299,970	733,928
Loss on Redemption (Note 9)	1,038,054	627,490
Total Operating Expenses	<u>\$ 45,359,919</u>	<u>\$ 46,395,687</u>
 Operating Income (Loss) Before Transfers	 7,973,099	 6,505,119
Transfer from Primary Government (Note 1)	<u>-</u>	<u>500,000</u>
 Increase (Decrease) in Net Assets	 7,973,099	 7,005,119
Net Assets, Beginning of Year	<u>121,556,740</u>	<u>114,551,621</u>
Net Assets, End of Year	<u><u>\$ 129,529,839</u></u>	<u><u>\$ 121,556,740</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

	FY 2003	FY 2002
CASH FLOWS FROM OPERATING ACTIVITY		
Receipts for Sales and Services	\$ 229,872	\$ 192,133
Collections on Loans and Interest on Loans	185,660,318	126,111,782
Cash payments for Loans	(85,189,678)	(132,645,941)
Federal Financial Assistance Receipts	242,171	240,140
Receipts for Grants and Contributions	42,733	-
Payments to Suppliers for Goods and Services	(3,374,901)	(3,142,506)
Payments to Employees	(756,678)	(654,733)
Other Operating Revenues	9,896	5,267
Net Cash Provided (Used) by Operating Activities	<u>\$ 96,863,733</u>	<u>\$ (9,893,856)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Payment of Principal and Interest on Bonds and Notes	\$ (249,731,928)	\$ (153,774,013)
Proceeds from Issuance of Bonds and Notes	144,015,500	89,180,000
Payment of Bond Issuance Costs	(1,200,881)	(591,555)
Premium Paid on Refunding Bonds	(399,700)	(421,700)
Good Faith Deposit being Held	707,000	521,900
Transfers in (out)	-	500,000
Net Cash Provided (Used) by Noncapital Financing Activities	<u>\$ (106,610,009)</u>	<u>\$ (64,585,368)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of Capital Assets	\$ -	\$ (49,695)
Net Cash Used by Capital and Related Financing Activities	<u>\$ -</u>	<u>\$ (49,695)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Investments	\$ (649,003,025)	\$ (406,412,602)
Proceeds from Sales or Maturities of Investments	652,541,427	471,073,232
Interest on Investments	9,692,205	10,545,071
Arbitrage Rebate Tax (Note 12)	(666,190)	(172,914)
Net Cash Provided (Used) by Investing Activities	<u>\$ 12,564,417</u>	<u>\$ 75,032,787</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 2,818,141	\$ 503,866
Cash and Cash Equivalents, beginning bal.	\$ 4,938,346	\$ 4,434,480
Cash and Cash Equivalents, ending bal.	\$ 7,756,487	\$ 4,938,346

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

	FY 2003	FY 2002
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 7,973,099	\$ 6,505,119
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Depreciation	40,123	51,467
Amortization	1,504,183	1,018,932
Interest Expense	39,401,802	40,521,800
Interest on Investments	(9,655,738)	(10,224,786)
Arbitrage Rebate Tax	299,970	733,928
Bad Debt Allowance	-	50,000
(Incr) Decr in Fair Value of Investments	(2,300,207)	(589,650)
Change in Assets and Liabilities:		
Decr (Incr) in Mortgage Loans Receivable	59,611,933	(48,449,705)
Decr (Incr) in Other Assets	196,312	(214,553)
Incr (Decr) in Accounts Payable	(27,980)	208,735
Incr (Decr) in Deferred Reservation & Disc. Fees	(189,209)	473,277
Incr (Decr) in Compensated Absences Payable	9,445	21,578
Net Cash Provided (Used) by Operating Activities	<u>\$ 96,863,733</u>	<u>\$ (9,893,858)</u>

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA BOARD OF HOUSING
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2003 and 2002

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization:

The Montana Board of Housing (the Board) is a quasi-judicial board created in 1975, by the Legislative Assembly of the State of Montana to facilitate the availability of decent, safe, and sanitary housing to persons and families of lower income as determined in accordance with the Board policy in compliance with the Internal Revenue Code. The Board is authorized to issue negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed \$975,000,000 (\$1.5 billion effective October 1, 2003). The discount price of bonds sold, not the face amount of the bonds, counts against this statutory ceiling. Neither the faith and credit nor taxing power of the State of Montana may be pledged for payment of amounts so issued. The Board of Housing is attached to the Housing Division, Department of Commerce.

Basis of Presentation:

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). During fiscal year 2002 the Board implemented GASB Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments", No. 37, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus" and No. 38, "Certain Financial Statement Note Disclosures". In order to comply with the requirements of the statements noted, the Board's financial statements include a classified statement of net assets, a statement of revenues, expenses, and changes in net assets that reports operating and nonoperating revenues and expenses, and the statement of cash flows. In addition, the "Management Discussion and Analysis" precedes the financial statements as required supplementary information. Revenues in the proprietary funds are recognized when earned and expenses are recognized when incurred. The financial activities of the Board are recorded in funds established under various bond resolutions and the Montana Code Annotated (MCA). In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of net assets and revenues and expenses for the period. The financial statements of the Board are presented on a combined basis. The combining financial information can be found in other supplemental information.

Reporting Entity:

In accordance with governmental accounting and financial reporting standards, there are no component units to be included within the Board of Housing as a reporting entity. The financial statements of the Board of Housing are presented as a component unit in the State of Montana's Basic Financial Statements. The enterprise fund of the Board of Housing is part of but do not comprise the entire proprietary fund type of the State of Montana. The State of Montana directs and supervises budgeting, record keeping, reporting, and related administrative functions of the Board.

Fund Accounting:

To ensure observance of limitations and restrictions placed on the use of resources by the trust indentures, the Board of Housing accounts are organized in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting purposes into funds established according to their nature and purpose as described in the trust indentures. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, net assets, revenues, and expenses. The funds of the Board are classified as enterprise funds, that is, a fund that is financed and operated in a manner similar to private business enterprises, where the intent of the Board is that the expenses of meeting its organizational purpose be financed or recovered primarily through user charges and investment earnings, and the periodic determination of revenue earned and expenses incurred is appropriate for capital maintenance, public policy, management control, accountability, and other purposes. Net Assets – Restricted for Bondholders represent bond program funds that are required to be used for program purposes as prescribed by individual bond indentures. The following describes the restrictions on the Net Assets: The individual bond indentures establish certain funds and accounts as special trust funds to hold the individual indenture funds. Because of the nature of the Board's bonds, these funds and accounts are pledged as collateral for the bonds under the individual program indentures. The individual indentures also set certain reserve requirements on cash and investments. These reserves are disclosed in Note 4 to the financial statements. Also, as disclosed in Note 5 to the financial statements, the mortgage loans receivable are pledged as security for

MONTANA BOARD OF HOUSING
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2003 and 2002

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Fund Accounting – continued

holders of the bonds. Certain indentures also require asset-liability coverage ratios be met as well as cash flow certificates be furnished for any significant change anticipated in the financial structure of an indenture.

Restricted Net Assets also include funds reserved by participants and funds committed to specific projects under various programs established by the Board.

Revenue and Expense Recognition:

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The Board records all revenues and expenses related to mortgages, investments, and bonds as operating revenues and expenses.

Fund Structure:

The Board's program funds and other funds have been presented on a combined basis, as the Board is considered a single enterprise fund for financial reporting purposes. A description of the funds established by the Board follows:

Single Family Mortgage Program Funds - These funds, established under four separate trust indentures adopted on various dates, are established for accounting for the proceeds from the sale of Single Family Mortgage Bonds and the debt service requirements of the bond indebtedness. Activities of these funds are, in general, restricted to the purchase of eligible single family mortgage loans. The mortgage loans must be insured by the Federal Housing Administration or guaranteed by Veterans Administration or Rural Development.

The accompanying combining financial statements include the activity of several Single Family Mortgage Program Funds. The assets of each individual Single Family Mortgage Program Fund are restricted by the Fund's respective trust indenture; therefore, the total does not indicate that the Single Family Mortgage Program Funds' assets are available in any manner other than provided for in the individual trust indentures. The Board has reserved funds for specific loan programs. These loans will be originated from funds available in the Single Family I and II Indentures.

Multifamily Mortgage Program Funds - These funds, established under a trust indenture adopted February 23, 1978, as amended and restated as of December 29, 1992, are established to account for the proceeds from the sale of Multifamily Mortgage Bonds, the debt service requirements of the bond indebtedness, and for construction and permanent mortgage loans on multifamily developments being financed from the bond proceeds. Mortgage loans originated prior to December 1992 must be insured by the Federal Housing Administration.

On November 10, 1998, the Board issued \$1,625,000 in Multifamily General Obligation Bonds. These bonds are payable out of any of the Board's moneys, assets or revenue. These funds, established under a trust indenture adopted November 1, 1998, are established to account for the proceeds from the sale of Multifamily Mortgage General Obligation Bonds, the debt service requirements of the bond indebtedness, and for construction and permanent mortgage loans on multifamily developments being financed from the bond proceeds. The mortgage loans originated under this Indenture are not required to be insured by the Federal Housing Administration.

The Multifamily Program Fund on the combining financial statements, includes activity for both Indentures.

Housing Trust Fund - The Housing Trust Fund was established as a separate trust fund by a resolution of the Montana Board of Housing, adopted February 16, 1989. The Housing Trust Fund was created to finance in whole or in part future housing needs and the establishment of new programs as deemed necessary by the Board and any loans or projects that will provide housing for lower income persons and families with special housing needs. Current programs include, but are not limited to, the Reverse Annuity Mortgage Program (RAM) for senior Montana homeowners and the Cash Assistance Program – Disabled (CAP) to assist disabled individuals and families in the purchase of a single family home. The Housing Trust Fund also includes all activity from the Low Income Housing Tax Credit Program.

MONTANA BOARD OF HOUSING
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2003 and 2002

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Fund Structure - continued

Affordable Housing Revolving Loan Account - Under MCA 90-6-133, a Revolving Loan Account was established. The affordable housing revolving loan account was established in the state special revenue fund in the state treasury. For purposes of financial reporting, the Board has reclassified this account as an enterprise fund as allowed in GASB Statement No. 34. Senate Bill 243 of the 2003 Legislature moved the Revolving Loan Account to the enterprise fund effective July 1, 2003. The money in the loan account is allocated to the board for the purposes of providing loans to eligible applicants. House Bill 57 of the 2001 Legislature authorized the transfer of \$500,000 from the Federal Housing and Urban Development Section 8 administrative fee reserve account to this account. In addition, House Bill 273 of the 2001 Legislature transferred a \$3,415,928 of the Temporary Assistance to Needy Families (TANF) block grant to the Board to be used for purposes authorized by the block grant. Senate Bill 6 of the 2002 Special Session limited the transfer to \$700,000.

Cash and Cash Equivalents:

For the purposes of the combining statement of cash flows, cash and cash equivalents consist of cash held by the State of Montana Treasurer, cash and money market accounts held by trustees, and cash invested in the state's short term investment pool.

Investments:

Investment of the Board's monies is made in accordance with the Board's investment policy, effective April 13, 2000, (revised February 13, 2002) which is in accordance with the trust indentures and the laws of the State of Montana.

Permitted investments are U.S. treasury obligations, U.S. agency obligations, debentures, or notes, certificates of deposits or time deposits, insured by the FDIC or fully insured by U.S. treasury or agency obligations which have a market value at least equal to the amount of such deposits, and investment contracts fully collateralized in an amount equal to 102% of the principal and interest of the agreement.

In no case shall an investment result in a reduction of ratings by Standard & Poor's Rating Services or Moody's Investor Services.

From 1988 to 1992 the Board invested in guaranteed investment contracts that had underlying collateral equal to 100% of the principal and interest of the agreements.

Investments, which are generally intended to be held to maturity, are reported at "fair value", as required by GASB 31.

Mortgage Loans Receivable:

Mortgage loans receivable are carried at their uncollected principal balances, adjusted for unamortized mortgage discounts and deferred loan fees, less an allowance for loan losses. Mortgage discounts and loan fees earned after 1988 are amortized using the interest method over the life of the mortgage loans and are accreted to interest income on mortgages. Mortgage discounts for all other program funds are amortized using the straight-line method over the remaining life of the mortgage loans and accreted to interest income.

The Board purchases mortgage loans secured by residences located throughout the State of Montana. Loans must be insured by the FHA (Federal Housing Administration) or guaranteed by the VA (Veterans Administration) or RD (Rural Development). Guidelines to minimize credit risk are established by FHA, VA, RD & Board policies.

Interest receivable is accrued on the amount of outstanding mortgage loan principal only if deemed collectible. Accrual on non-performing loans ceases at six months.

Estimated losses are determined based on management's judgement, giving effect to numerous factors including, but not necessarily limited to, general economic conditions, loan portfolio composition, prior loss experience and independent appraisals. The reserve for anticipated loan losses represents amounts which are not expected to be fully reimbursed by certain guarantors.

The Board incurs mortgage loan service fees with participating loan servicers based on outstanding monthly

MONTANA BOARD OF HOUSING
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2003 and 2002

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Mortgage Loans Receivable – continued

mortgage loan principal balances. The service fees are paid only when the mortgagee's full monthly payment is collected.

Capital Assets:

Capital assets are recorded at cost and depreciation is computed using the straight-line method over estimated useful lives of 5 to 10 years. The majority of capital assets consist of computers and software. The capitalization threshold for recording capital assets is \$5,000. Purchases under this threshold are recorded as expenses in the current period.

Bonds Payable:

Bonds payable is adjusted for amortized bond premiums and discounts. Bond premiums and discounts are amortized or accreted to interest expenses using the interest method, as an adjustment to yield, over the life of the bonds to which they relate or are expensed upon early redemption of the bonds.

Bond issuance costs, including underwriter discounts, are amortized using the bonds outstanding method over the life of the bonds or are expensed upon redemption of the bonds.

Compensated Absences:

The Board's employees earn vacation leave ranging from 15 to 24 days per year depending on the employee's years of service. Vacation leave may be accumulated to a total not to exceed two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Upon retirement or termination, an employee is paid for 100% of unused vacation leave and 25% of unused sick leave.

NOTE 2. CASH AND CASH EQUIVALENTS

The Board's cash and cash equivalents are categorized below to give an indication of the level of risk assumed by the Board. Category 1 includes investments which are insured, registered, or held by the Board or its agent in the Board's name. Category 2 includes uninsured and unregistered investments that are held by the counter party's trust department or agent in the Board's name. Category 3 includes uninsured and unregistered investments that are held by the counter party, or by its trust department or agent but not in the Board's name. All cash held by trustees and cash balances maintained by the State of Montana Treasury and held in the State's Short Term Investment Pool (STIP) were covered by federal depository insurance or collateralized by securities held by third parties in the Board's name. At June 30, 2003 and 2002, the carrying amounts of the Board's cash and cash equivalents equaled the bank balances.

	Category			Totals	
	1	2	3	2003	2002
Program Funds*	\$ 7,598,440	\$ -	\$ -	\$ 7,598,440	\$ 4,788,934
Deposited with State Treasury	158,047	-	-	158,047	149,412
	<u>\$ 7,756,487</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,756,487</u>	<u>\$ 4,938,346</u>

*Cash deposits are held at the trustee bank. Based on the opinion of the Board's bond counsel, these funds are insured by the FDIC on a pass-through basis to the owners of mortgage bonds. Thus, each individual bondholder is entitled to \$100,000 of insurance coverage.

The units held in the State's Short Term Investment Pool (STIP) are valued at \$1 per unit. Although STIP is not registered with the Securities and Exchange Commission (SEC) as an investment company, the Montana Board of Investments (BOI) has a policy that STIP will, and does, operate in a manner consistent with the SEC's rule 2a7 of the Investment Company Act of 1940. In meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair market value to report net assets to compute unit values. The STIP portfolio may include asset-backed securities, commercial paper, corporate and government securities, repurchase agreements, and variable rate (floating rate) instruments.

MONTANA BOARD OF HOUSING
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2003 and 2002

NOTE 3. SECURITIES LENDING

The Board of Housing invests in the State's Short-Term Investment Pool. As part of the pool administered by the Board of Investments (BOI), the Board participates in securities lending transactions. Under GASB 28, the following disclosures are required:

Under the provisions of state statutes, the BOI has, via a Securities Lending Authorization Agreement, authorized a custodial bank, State Street Bank and Trust, to lend the BOI's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, BOI receives a fee and the custodial bank must initially receive collateral equal to 102% of the fair value of the loaned securities and maintain collateral equal to not less than 100% of the fair value of the loaned security. BOI retains all rights and risks of ownership during the loan period.

During fiscal years 2003 and 2002, State Street lent, on behalf of BOI, certain securities held by State Street, as custodian, and received US dollar currency cash, US government securities, and irrevocable bank letters of credit. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

BOI did not impose any restrictions during fiscal year 2003 and 2002 on the amount of loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 2003 and 2002. More over, there were no losses during fiscal years 2003 and 2002 resulting from a default of the borrowers or State Street.

During fiscal years 2003 and 2002, BOI and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and BOI's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which BOI could not determine. On June 30, 2003 and June 30, 2002, BOI had no credit risk exposure to borrowers.

On June 30, 2003 and June 30, 2002, there were no securities on loan.

NOTE 4. INVESTMENTS

The Board's investments are categorized below to give an indication of the level of risk assumed by the Board. Category 2 includes uninsured and unregistered investments that are held by the counter party's trust department or agent in the Board's name. The Board's investments at June 30, 2003 and 2002 consisted of Category 2 investments:

	2003		2002	
	Reported Amount	Fair Value	Reported Amount	Fair Value
U.S. Treasury	\$ 14,972,133	\$ 15,390,181	\$ 18,299,426	\$ 18,327,053
U.S. Agency	41,681,486	41,692,200	26,436,472	26,415,326
Repurchase Agreements and Investment Contracts – Collateralized	90,956,403	90,956,403	104,112,320	104,112,320
Total	<u>\$ 147,610,022</u>	<u>\$ 148,038,784</u>	<u>\$ 148,848,218</u>	<u>\$ 148,854,699</u>

In addition, investments in the Multi-Family program include a property being held as an investment that was returned to the Board via a deed in-lieu of foreclosure. It is currently being reported at its fair market value estimate of \$140,000. The fair value of the property is based on a market analysis of the property. Consideration was given to the income potential of the property as well as the economy and recent sales of similar property.

All repurchase agreements and investment contracts were fully collateralized with securities and cash held by the provider's agent and confirmed by the trustee as required by the bond indentures. Securities underlying the repurchase agreements have a market value of at least 102% of the cost of repurchase agreement. Securities underlying the investment contracts have a market value of at least 100% of the cost of the investment contract.

MONTANA BOARD OF HOUSING
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2003 and 2002

NOTE 4. INVESTMENTS-Continued

plus accrued interest.

Under GASB 31, certain investments are to be reported at fair value. The Board values all of its investments that have a maturity date of over one year at fair value. Those investments that have a maturity date of less than one year are valued at amortized cost. The fair values were based on market prices provided by the Board's trustee.

Portions of cash and investments, valued at amortized cost, are restricted to uses specified by applicable bond indentures. Amounts are restricted as follows:

	2003		2002	
	Single Family Mortgage Program Funds	Multifamily Mortgage Program Funds	Single Family Mortgage Program Funds	Multifamily Mortgage Program Funds
Debt Service Reserve Fund	\$ 39,042,375	\$ 1,368,067	\$ 39,582,664	\$ 1,370,191
Mortgage Reserve Fund	3,972,398	176,456	3,970,629	215,695
Total	<u>\$ 43,014,773</u>	<u>\$ 1,544,523</u>	<u>\$ 43,553,293</u>	<u>\$ 1,585,886</u>

As of June 30, 2003 original bond proceeds of \$13,524,109 were still on deposit in the 2002A, 2002B, and 2003A program acquisition funds to be used for the purchase of Single Family Mortgage loans. The proceeds of \$13,524,109 included \$12,463,984 in the 2003A bond issue that was closed on April 30, 2003.

As of June 30, 2003 there was \$32,959,939 in Single Family reservations outstanding in the 2003A and 2003B bond issues. The 2003B bond issue closed on August 14, 2003.

NOTE 5. MORTGAGE LOANS RECEIVABLE

The mortgage loans receivable are pledged in accordance with individual program indentures as security for holders of the bonds. Mortgage loans receivable consist of the following:

	2003	2002
Mortgage loan receivables:		
Single Family Program	\$576,062,023	\$635,411,574
Multifamily Program	19,571,681	20,112,660
Housing Trust Program	1,044,158	936,240
Affordable Revolving Loan Account	<u>1,670,679</u>	<u>1,500,000</u>
	598,348,541	657,960,474
Net mortgage discounts and deferred reservation fees	(5,692,995)	(5,882,204)
Allowance for loan losses and real estate owned (note 6)	<u>(300,000)</u>	<u>(300,000)</u>
	<u>\$592,355,546</u>	<u>\$651,778,270</u>

NOTE 6. ALLOWANCE FOR LOAN LOSSES AND REAL ESTATE OWNED

The following summarizes activity in the allowance for loan losses and real estate owned:

Balance, June 30, 2001	\$250,000
Provision	93,923
Less: Net loans charged off	(43,923)
Balance, June 30, 2002	300,000
Provision	61,294
Less: Net loans charged off	(61,294)
Balance, June 30, 2003	<u>\$ 300,000</u>

MONTANA BOARD OF HOUSING
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2003 and 2002

NOTE 6. ALLOWANCE FOR LOAN LOSSES AND REAL ESTATE OWNED - continued

The allowance for loan losses includes \$200,000 at June 30, 2003 and 2002 for future estimated losses on real estate owned. Real estate owned property is property that is acquired through foreclosure or in satisfaction of loans and is initially recorded at the lower of the related loan balance, less any specific allowance for loss, or fair market value minus estimated costs to sell. The Board held twelve real estate owned properties as of June 30, 2003 and five as of June 30, 2002.

NOTE 7. CAPITAL ASSETS

Capital assets consist primarily of computer hardware, peripherals, software and other office equipment. Balances are as follows:

	<u>2003</u>	<u>2002</u>
Furniture, fixtures, and equipment at cost	\$412,181	\$412,181
Accumulated depreciation	(298,420)	(258,297)
Net capital assets	<u>\$ 113,761</u>	<u>\$ 153,884</u>

Depreciation expense included in general and administrative expense was \$40,124 and \$51,467 for the years ended June 30, 2003 and 2002 respectively.

NOTE 8. BONDS PAYABLE, NET

Bonds payable, net of premium or discount, consists of the following:

	<u>Original Amount</u>	<u>2003</u>	<u>2002</u>
Single Family I Mortgage Bonds:			
1997			
Series A-1 and A-2 serial and term bonds 4.00% to 6.15% maturing in scheduled semi-annual installments to December 1, 2011, and on December 1, 2016, December 1, 2017, December 1, 2027, December 1, 2029 June 1, 2030 and December 1, 2037	\$91,360,000	\$62,405,000	\$72,280,000
1999			
Series A-1 and A-2 serial and term bonds 4.35% to 5.75% maturing in scheduled semi-annual installments to December 1, 2012, and on December 1, 2014, December 1, 2020, June 1, 2030 and December 1, 2030 and December 1, 2031	60,000,000	41,425,000	50,120,000
2000			
Series A-1 and A-2 serial and term bonds 4.15% to 6.45% maturing in scheduled semi-annual installments to December 1, 2012, and on June 1, 2016, June 1, 2019, December 1, 2020, June 1, 2029 December 1, 2031 and June 1, 2032	87,695,000	52,075,000	74,300,000
2000			
Series B-1 and B-2 serial and term bonds 4.40% to 7.95% maturing in scheduled semi-annual installments to June 1, 2015, and on June 1, 2020, December 1, 2020, December 1, 2029, June 1, 2032 December 1, 2031	71,940,000	61,145,000	68,745,000

MONTANA BOARD OF HOUSING
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2003 and 2002

NOTE 8. BONDS PAYABLE, NET - continued

	<u>Original Amount</u>	<u>2003</u>	<u>2002</u>
2001			
Series A-1 and A-2 serial and term bonds 4.30% to 5.70% maturing in scheduled semi-annual installments to December 1, 2020, December 1, 2023 December 1, 2031, June 1, 2032 and December 1, 2032	\$71,000,000	\$60,710,000	\$68,370,000
2002			
Series A-1 and A-2 serial and term bonds 1.70% to 5.60% maturing in scheduled semi-annual installments to December 1, 2022, December 1, 2032 and December 1, 2033.	39,000,000	36,095,000	39,000,000
Series B-1 and B-2 serial and term bonds 2.30% to 5.55% maturing in scheduled semi-annual installments to December 1, 2023, December 1, 2026, December 1, 2032, June 1, 2033, December 1, 2033, And June 1, 2034.	52,190,000	51,540,000	-
Total bonds outstanding Single Family I		<u>\$365,395,000</u>	<u>\$372,815,000</u>
Single Family II Mortgage Bonds:			
1983 -			
Series C, serial, term and Capital Appreciation Bonds (CAB), 5.75% to 10.7% interest. Serial and term bonds, refunded April 15, 1994. CABS are reported at accreted value, and are scheduled for redemption, in part, in semi- annual installments commencing June 1, 2003 to June 1, 2010.	\$114,998,229	\$ 817,099	\$6,873,533
1985 -			
Series A, serial, term, Postponed Revenue on Future Income Tax(PROFITS), all redeemed. CABS are reported at accreted value, and scheduled for redemption, in part, in semi- annual installments to December 1, 2004 and December 1, 2015 to June 1, 2016.	39,999,625	2,668,186	4,048,388
Series B, term bonds maturing in scheduled semi- annual installments to June 1, 2011.	74,996,862	1,080,000	2,200,000
1992 -			
Series RA, serial and term, 5.65% to 6.5% interest, serial and term bonds maturing to December 1, 2007, and on December 1, 2012, December 1, 2022, and December 1, 2032.	22,520,000	-	22,520,000
1994 -			
Series A-1 and A-2, serial and term bonds, 3.1% to 6.1% interest, serial and term bonds maturing in scheduled semi-annual installments to December 1, 2002, and on June 1, 2015 and December 1, 2024.	\$25,725,000	\$5,040,000	\$7,000,000

MONTANA BOARD OF HOUSING
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2003 and 2002

NOTE 8. BONDS PAYABLE, NET – continued

	<u>Original Amount</u>	<u>2003</u>	<u>2002</u>
1994-			
Series B-1 and B-2, serial and term bonds, 3.8% to 6.9% interest, serial and term bonds maturing in scheduled semi-annual installments to December 1, 2002, and on June 1, 2008, December 1, 2014 and June 1, 2025.	40,815,000	-	920,000
1995 -			
Series A-1 and A-2 serial and term bonds 4.75% to 6.55% maturing in scheduled semi-annual installments to December 1, 2009, and on December 1, 2012, December 1, 2017, December 1, 2025, and June 1, 2027.	33,580,000	3,840,000	10,870,000
Series B-1 and B-2 serial and term bonds 4.20% to 6.40% maturing in scheduled semi-annual installments to December 1, 2008, June 1, 2006 to December 1, 2008 and on December 1, 2014, December 1, 2021, December 1, 2027, and June 1, 2035.	88,000,000	64,680,000	75,000,000
1996-			
Series A-1 and A-2 serial and term bonds 4.70% to 6.375% maturing in scheduled semi-annual installments to December 1, 2009, and on December 1, 2012, June 1, 2016, June 1, 2024, and December 1, 2028.	65,000,000	28,175,000	40,595,000
1998-			
Series A-1 and A-2 serial and term bonds 4.00% to 5.45% maturing in scheduled semi-annual installments to December 1, 2012, and on December 1, 2016, June 1, 2019, June 1, 2027, December 1, 2030 and June 1, 2031.	51,780,000	35,635,000	42,605,000
Series B-1 and B-2 serial and term bonds 4.65% to 5.35% maturing in scheduled semi-annual installments to December 1, 2005 and on December 1, 2013, and on December 1, 2005, December 1, 2016, June 1, 2021, December 1, 2022, December 1, 2030 and , June 1, 2031.	65,000,000	48,700,000	56,945,000
2003-			
Series A-1 and A-2 serial and term bonds 1.20% to 4.90% maturing in scheduled semi-annual installments to December 1, 2024, June 1, 2033, December 1, 2033, June 1, 2034, June 1, 2035, June 1, 2042, and December 1, 2042.	52,520,000	52,520,000	-
Bonds outstanding Single Family II		243,155,285	269,576,921
Unamortized bond premiums		575,946	-
Total bonds outstanding Single Family II		<u>\$243,731,231</u>	<u>\$269,576,921</u>

MONTANA BOARD OF HOUSING
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2003 and 2002

NOTE 8. BONDS PAYABLE, NET - continued

	<u>Original Amount</u>	<u>2003</u>	<u>2002</u>
Single Family III Mortgage Bonds:			
1988 -			
Series B-1 and B-2, serial and term senior bonds and subordinate bonds, 6.2% to 8.9% interest, maturing in scheduled semi-annual installments to October 1, 2008, and on October 1, 2014 and October 1, 2020.			
Senior Bonds	\$24,000,000	\$545,000	\$1,175,000
Subordinate Bonds	1,000,000	-	-
Single Family Mortgage Drawdown Bonds:			
2001			
Drawdown Series – available as needed, not to exceed \$50,000,000, interest at BMA Index + .5% but not less 85% of 1 month LIBOR and not greater than 94% of 1 month LIBOR.	23,220,000	-	27,960,000
Total Single Family Mortgage bonds payable, net		<u>\$609,671,231</u>	<u>\$671,526,921</u>

All single family mortgage bonds, except the drawdown bonds, are subject to mandatory sinking fund requirements of scheduled amounts commencing at various dates and to optional redemption at various dates at prices ranging from 100% to 103%.

Single Family I and II mortgage bonds are general obligation bonds of the Board of Housing within the individual bond indenture. Single Family III mortgage senior bonds are special obligation bonds of the Board of Housing whereas subordinate bonds were general obligation bonds of the Board of Housing. The Single Family Mortgage Drawdown bonds were special obligation bonds of the Board of Housing.

	<u>Original Amount</u>	<u>2003</u>	<u>2002</u>
Multifamily Mortgage Bonds:			
1978 -			
Series A, 6.125% interest, maturing in scheduled annual installments to August 1, 2019.	\$4,865,000	\$955,000	\$980,000
1992 -			
Series A, 2.95% to 6.55% interest, serial and term Bonds, maturing in scheduled semi-annual installments to August 1, 2006, and on August 1, 2012, and August 1, 2023.	9,725,000	3,520,000	6,740,000
1996			
Series A, 4.10% to 6.15% interest, serial and term Bonds, maturing in scheduled annual installments to August 1 2011, and on August 1, 2016, and August 1, 2026.	890,000	800,000	815,000
1998			
Series A 3.5% to 4.70% interest, serial and term Bonds, maturing in scheduled annual installments to August 1, 2014 and on August 1, 2029.	1,625,000	1,355,000	1,425,000

MONTANA BOARD OF HOUSING
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2003 and 2002

NOTE 8. BONDS PAYABLE, NET - continued

	Original Amount	2003	2002
1999			
Series A 4.95% to 8.45% interest, term			
Bonds, maturing in scheduled semi annual			
installments to August 1, 2008, August 1, 2010,			
August 1, 2016, August 1, 2025, August 1, 2030,			
August 1, 2037, August 1, 2041 and August 1, 2039	9,860,000	9,295,000	9,455,000
Total bonds outstanding		15,925,000	19,415,000
Unamortized bond premiums		(45,767)	(47,218)
Total Multifamily Mortgage bonds payable, net		\$15,879,233	\$19,367,782
Combined total bonds payable, net		\$625,550,464	\$690,894,703

All multifamily bonds are subject to mandatory sinking fund requirements of scheduled amounts commencing at various dates and to optional redemption after various dates at prices ranging from 100% to 105%.

The 1998A Multifamily bonds are general obligations of the Board.

The following is a primary summary of bond principal and interest requirements as of June 30, 2003:

Year Ending	Single Family Mortgage Program Funds	Multifamily Mortgage Program Funds	Principal Totals	Interest Totals
2004	\$ 42,538,307	\$ 1,464,355	\$ 9,168,966	\$ 34,833,696
2005	42,459,441	1,422,347	9,662,245	34,219,543
2006	42,337,698	1,424,888	10,040,780	33,721,806
2007	42,674,776	1,425,514	10,875,380	33,224,910
2008	42,811,846	1,423,000	11,558,440	32,676,406
2009-13	216,367,840	6,918,066	70,112,575	153,173,331
2014-18	220,655,553	4,577,602	90,146,899	135,086,256
2019-23	213,925,300	3,973,742	113,355,000	104,544,042
2024-28	209,127,735	3,419,312	144,635,000	67,912,047
2029-33	145,997,572	2,775,437	122,965,000	25,808,009
2034-38	27,178,203	2,743,731	25,065,000	4,856,934
2039-43	6,624,433	1,733,869	7,435,000	923,302
Total	\$ 1,252,698,704	\$ 33,301,863	\$ 625,020,285	\$ 660,980,282

Cash paid for interest expenses during the years ending June 30, 2003 and 2002 was \$38,786,637 and \$40,004,290, respectively.

Changes in Bonds Payable

	7/1/2002 Balance	Increases	Decreases	6/30/2003 Balance
Single Family	\$ 671,526,921	\$ 145,555,356	\$ 207,411,046	\$ 609,671,231
Multi Family	19,367,782	-	3,488,549	15,879,233
Total	\$ 690,894,703	\$ 145,555,356	\$ 210,899,595	\$ 625,550,464

MONTANA BOARD OF HOUSING
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2003 and 2002

NOTE 9. LOSS ON REDEMPTION

During the years ended June 30, 2003 and 2002 the Board redeemed Single Family mortgage program bonds prior to scheduled maturity as follows:

	<u>2003</u>	<u>2002</u>
Single Family I		
December 1	\$17,665,000	\$10,065,000
June 1	<u>38,345,000</u>	<u>15,610,000</u>
	<u>56,010,000</u>	<u>25,675,000</u>
Single Family II		
October 1	-	3,000,000
November 1	950,000	-
December 1	25,396,567	14,039,529
June 1	<u>19,598,496</u>	<u>13,898,968</u>
	<u>45,945,063</u>	<u>30,938,497</u>
Single Family III		
October 1	310,000	280,000
April 1	<u>255,000</u>	<u>295,000</u>
	<u>565,000</u>	<u>575,000</u>
Single Family VIII		
July 1	-	135,000
	-	<u>135,000</u>
Single Family IX		
July 1	-	175,000
	-	<u>175,000</u>
Single Family X		
October 1	-	475,000
April 1	-	<u>240,000</u>
	-	<u>715,000</u>
Multifamily	<u>3,000,000</u>	<u>3,130,000</u>
Total	<u>\$105,520,063</u>	<u>\$61,343,497</u>

All such Bonds were redeemed at par or 100% of their compounded value to date of redemption. Unamortized discounts and cost of issuance associated with the bonds redeemed were expended at time of redemption and are reported as losses on redemption of \$1,038,054 and \$627,490 in 2003 and 2002, respectively.

MONTANA BOARD OF HOUSING
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2003 and 2002

NOTE 10. COMMITMENTS

The Board has reserved and is in the process of purchasing Single Family Mortgages of approximately \$14,186,618 from the issuance of the 2003 Series A Bonds and \$18,773,321 from the issuance of the 2003 Series B bonds.

The Board has committed to purchase Single Family Mortgages as noted below:

HUD Section 184-Indian Housing	\$ 368,695
Glacier Affordable Housing Program	1,700,429
City of Billings	2,056,685
Neighborhood Housing Services MT Home Ownership Network	3,504,662
Neighborhood Housing Services MT Home Ownership Network (Subordinate Loan)	1,616,172
Habitat for Humanity	1,245,122
City of Terry	89,510
City of Lewistown	420,000
City of Missoula	1,885,340
County of Missoula	1,885,340
First Time Homebuyers Savings Account	453,720
USDA Rural Housing Development	1,481,817
Native American Housing Loan Guarantee	986,240
Dream Montana Project	778,321
District XI Human Resource Council	600,000
Lot Refinance	1,000,000
Rocky Mountain Development Council – Great Hope	1,400,000
Disabled Affordable Accessible Homeownership Program	426,790
Total Single Family commitments	<u>\$21,898,843</u>

Other Commitments--Single Family I	
Reverse Annuity Mortgage Program	\$350,000

The Board has the following Multifamily commitments:

Financing Adjustment Factor Subsidy Set aside (restricted by agreement with HUD)	\$244,644
Total Multifamily Commitments	

The Board has committed Housing Trust Funds as noted below:

Reverse Annuity Mortgage Program	\$1,150,125
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Affordable Revolving Loan Account funds committed by the Board:

Franklin School	\$300,000
Main Street Apartments	65,000
Total AHRLA commitments	<u>\$365,000</u>

These mortgage commitments will be funded through cash and investments.

During the ordinary course of business, the Board incurs expenses under various cancelable leases for rental of equipment and maintenance contracts.

NOTE 11. EMPLOYEE BENEFIT PLANS

The Board of Housing participates in the Public Employees' Retirement System plan. The plan is a statewide, cost-sharing multiple employer defined benefit retirement plan that covers full-time permanent employees. Part-time employees have an option to belong to the retirement plan, depending upon hours worked. The plan is established under State law and is administered by the State of Montana. The plan provides retirement, disability and death benefits to plan members and beneficiaries.

MONTANA BOARD OF HOUSING
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2003 and 2002

NOTE 11. EMPLOYEE BENEFIT PLANS – continued

The plan issues publicly available annual reports that include financial statements and required supplemental information for the plans. Those reports may be obtained from the following:

Public Employees' Retirement Administration
P.O. Box 200131
100 North Park Suite 220
Helena, MT 59620-0131
406-444-3154

Contribution rates for the plan are required and determined by State law.

The contribution rates for 2003 expressed as a percentage of covered payroll are as follows:

<u>Employee</u>	<u>Employer</u>	<u>Total</u>
6.90%	6.90%	13.80%

The amounts contributed to the plan during the years ended June 30, 2001, 2002, and 2003 were equal to the required contribution each year. The amounts contributed by both the Board and by employees, as required by State law, were as follows:

Fiscal Year 2001 - \$28,107
Fiscal Year 2002 - \$35,328
Fiscal Year 2003 - \$40,152

Deferred Compensation Plan: The Board's permanent employees are eligible to participate in the State of Montana's deferred compensation plan. The compensation deferred is not available to employees until separation from State service, retirement, death, or upon an unforeseeable emergency, when still employed and meeting IRS specified criteria. The plan is governed by Internal Revenue Service Code (IRC) Section 457 and Title 19, Chapter 50, Montana Code Annotated (MCA). The Small Business Job Protection Act of 1996 resulted in changes to IRC Section 457 and Title 19, Chapter 50, MCA. Assets of the deferred compensation plan are required to be held in trust, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries. For plans in existence as of August 20, 1996, compliance was required by January 1, 1999.

NOTE 12. CONTINGENT ARBITRAGE REBATE LIABILITY PAYABLE TO U.S. TREASURY DEPARTMENT

The Board has established an accrual for the contingent liability for estimated arbitrage payments due to the Treasury Department in accordance with the Internal Revenue Code. The amount of the rebate in general terms is the difference between the actual interest earned on investments and "allowable" interest as defined by Treasury Department Regulations. Ninety percent of the estimated rebate will be paid to the United States Treasury within 60 days of the end of every fifth bond year until the bonds are retired, at which time 100% of the remaining rebate amount is due.

There was \$666,190 in arbitrage rebate cash payments to the Treasury Department in fiscal year 2003. During fiscal year ended June 30, 2002, there was \$172,914 in arbitrage rebate cash payments to the Treasury Department. The liabilities are \$1,136,728 and \$1,502,948 as of June 30, 2003 and 2002, respectively.

NOTE 13. SUBSEQUENT EVENTS

On August 14, 2003, the board issued \$70,700,000 in bonds under the Single Family II Indenture. \$20,000,000 of the proceeds were used for a replacement refunding of a portion of the Series 1995 B-1 bonds on September 1, 2003. In addition, \$16,695,000 of Single Family II Indenture bonds were redeemed with prepayments on mortgages on October 1, 2003.

MONTANA BOARD OF HOUSING
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2003 and 2002

NOTE 14. REFUNDING AND DEFERRED BOND ISSUANCE COSTS

On April 30, 2003, Series 2003A was issued in the amount of \$52,520,000. In conjunction with the issuance of the 2003A bonds, the Board refunded the 1992RA bond issue on June 1, 2003.

Under GASB 23, deferred costs are required to be amortized over the shorter of the life of the refunded bonds or the life of the refunding bonds.

The following costs associated with the refunding were deferred and are being amortized under the GASB 23 guidelines:

FY 2003 Refunding:

Cost of Issuance related to the refunded bonds (92RA)	\$163,189
Premium paid on the refunded bonds (92RA)	<u>399,700</u>
Total deferred refunding costs	562,889
Less amortization FY 2003	<u>(11,037)</u>
Amount remaining to be amortized on FY 2003 issues	\$551,852

Prior years' Refundings:

Unamortized Deferred refunding costs from prior years' refunding	<u>\$909,537</u>
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Total unamortized	<u>\$1,461,389</u>
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The refunding of the 1992RA bonds resulted in an economic gain of \$2,429,314 and a difference in cash flows of (\$18,358,053). The refunding issue is at a substantially lower interest rate, but a negative cash flow resulted because the debt service payments of the refunding debt were extended for 10 years beyond the debt service payments of the refunded debt.

NOTE 15. RELATED PARTY TRANSACTIONS

Employees, officers and stockholders of certain approved originator and servicing financial institutions of the Board also serve as directors of the Board of Housing.

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MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF NET ASSETS
AS OF JUNE 30, 2003 (WITH COMPARATIVE TOTALS AS OF JUNE 30, 2002)

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture III	Single Family Drawdown
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 3,039,163	\$ 2,484,535	\$ 22,425	\$ 3,356
Investments	2,619,505	27,208,963	-	-
Mortgage Loans Receivable	5,273,658	4,431,829	49,291	-
Interest Receivable	2,487,801	2,068,419	16,957	-
Due from State Government	1,283	1,283	-	-
Prepaid Expense	91,209	76,058	-	-
Total Current Assets	<u>\$ 13,522,619</u>	<u>\$ 36,271,087</u>	<u>\$ 88,673</u>	<u>\$ 3,356</u>
Noncurrent Assets				
Investments	\$ 49,362,179	\$ 63,783,919	\$ 388,239	\$ -
Mortgage Loans Receivable	337,029,007	222,434,520	924,549	-
Deferred Bond Issuance Costs, Net	3,677,127	2,376,340	4,945	-
Capital Assets, Net	49,205	61,764	-	-
Total Noncurrent Assets	<u>\$ 390,117,518</u>	<u>\$ 288,656,543</u>	<u>\$ 1,317,733</u>	<u>\$ -</u>
TOTAL ASSETS	<u>\$ 403,640,137</u>	<u>\$ 324,927,630</u>	<u>\$ 1,406,406</u>	<u>\$ 3,356</u>
LIABILITIES				
Current Liabilities				
Accounts Payable	\$ 234,519	\$ 218,656	\$ 1,044	\$ -
Due to State Government	10,529	10,529	-	-
Due to Other Component Unit	1,824	1,824	-	-
Property Held in Trust	-	708,755	-	-
Accrued Interest - Bonds Payable	1,703,234	1,307,340	10,595	-
Bonds Payable, Net	4,315,000	4,313,966	30,000	-
Arbitrage Rebate Payable to U.S. Treasury Department	-	461,684	-	1,729
Accrued Compensated Absences	21,866	21,866	-	-
Total Current Liabilities	<u>\$ 6,286,972</u>	<u>\$ 7,044,620</u>	<u>\$ 41,639</u>	<u>\$ 1,729</u>
Noncurrent Liabilities				
Bonds Payable, Net	\$ 361,080,000	\$ 239,417,265	\$ 515,000	\$ -
Deferred Refunding Costs	(1,028,913)	(432,476)	-	-
Arbitrage Rebate Payable to U.S. Treasury Department	422,906	250,409	-	-
Accrued Compensated Absences	12,791	12,791	-	-
Total Noncurrent Liabilities	<u>\$ 360,486,784</u>	<u>\$ 239,247,989</u>	<u>\$ 515,000</u>	<u>\$ -</u>
TOTAL LIABILITIES	<u>\$ 366,773,756</u>	<u>\$ 246,292,609</u>	<u>\$ 556,639</u>	<u>\$ 1,729</u>
NET ASSETS				
Invested in Capital Assets, Net	\$ 49,205	\$ 61,764	\$ -	\$ -
Restricted for Bondholders:				
Unrealized (losses) gains on investments	-	3,862,207	-	-
Single Family Programs	29,114,980	60,164,403	849,767	1,627
Various Recycled Mortgage Programs	7,352,196	14,546,647	-	-
Multifamily Programs	-	-	-	-
Multifamily Project Commitments	-	-	-	-
Reverse Annuity Mortgage Program	350,000	-	-	-
Restricted for Affordable Revolving Loan Program	-	-	-	-
Revolving Loan Program Commitments	-	-	-	-
TOTAL NET ASSETS	<u>\$ 36,866,381</u>	<u>\$ 78,635,021</u>	<u>\$ 849,767</u>	<u>\$ 1,627</u>

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF NET ASSETS
AS OF JUNE 30, 2003 (WITH COMPARATIVE TOTALS AS OF JUNE 30, 2002)

SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	AFFORDABLE REVOLVING LOAN ACCT	Combined Totals (Memorandum Only)	
				FY 2003	FY 2002
\$ 5,549,479	\$ 169,142	\$ 1,626,899	\$ 410,967	\$ 7,756,487	\$ 4,938,346
29,828,468	3,146,730	-	-	32,975,198	42,223,135
9,754,778	541,626	-	-	10,296,404	10,754,012
4,583,177	178,744	224,046	42,359	5,028,326	5,260,307
2,566	36	32	-	2,634	-
167,267	4,103	3,255	-	174,625	175,491
<u>\$ 49,885,735</u>	<u>\$ 4,040,381</u>	<u>\$ 1,854,232</u>	<u>\$ 453,326</u>	<u>\$ 56,233,674</u>	<u>\$ 63,351,291</u>
\$ 113,534,337	\$ 1,240,487	\$ -	\$ -	\$ 114,774,824	\$ 106,765,083
560,388,076	18,956,229	1,044,158	1,670,679	582,059,142	641,024,258
6,058,412	245,638	-	-	6,304,050	6,702,516
110,969	1,396	1,396	-	113,761	153,883
<u>\$ 680,091,794</u>	<u>\$ 20,443,750</u>	<u>\$ 1,045,554</u>	<u>\$ 1,670,679</u>	<u>\$ 703,251,777</u>	<u>\$ 754,645,740</u>
<u>\$ 729,977,529</u>	<u>\$ 24,484,131</u>	<u>\$ 2,899,786</u>	<u>\$ 2,124,005</u>	<u>\$ 759,485,451</u>	<u>\$ 817,997,031</u>
\$ 454,219	\$ 11,349	\$ 10,543	\$ -	\$ 476,111	\$ 471,978
21,058	3,849	2,826	-	27,733	68,659
3,648	-	-	-	3,648	-
708,755	750	-	-	709,505	525,295
3,021,169	400,882	-	-	3,422,051	3,866,982
8,658,966	510,000	-	-	9,168,966	37,972,760
463,413	-	-	-	463,413	569,833
43,732	8,484	5,047	-	57,263	46,894
<u>\$ 13,374,960</u>	<u>\$ 935,314</u>	<u>\$ 18,416</u>	<u>\$ -</u>	<u>\$ 14,328,690</u>	<u>\$ 43,522,411</u>
\$ 601,012,265	\$ 15,369,233	\$ -	\$ -	\$ 616,381,498	\$ 652,921,943
(1,461,389)	-	-	-	(1,461,389)	(971,600)
673,315	-	-	-	673,315	933,115
25,582	4,963	2,953	-	33,498	34,422
<u>\$ 600,249,773</u>	<u>\$ 15,374,196</u>	<u>\$ 2,953</u>	<u>\$ -</u>	<u>\$ 615,626,922</u>	<u>\$ 652,917,880</u>
<u>\$ 613,624,733</u>	<u>\$ 16,309,510</u>	<u>\$ 21,369</u>	<u>\$ -</u>	<u>\$ 629,955,612</u>	<u>\$ 696,440,291</u>
\$ 110,969	\$ 1,396	\$ 1,396	\$ -	\$ 113,761	\$ 153,883
3,862,207	(56,665)	-	-	\$ 3,805,542	1,505,336
90,130,777	-	1,726,896	-	\$ 91,857,673	89,527,524
21,898,843	-	-	-	\$ 21,898,843	18,706,508
-	7,985,246	-	-	\$ 7,985,246	7,726,557
-	244,644	-	-	\$ 244,644	228,330
350,000	-	1,150,125	-	\$ 1,500,125	1,666,924
-	-	-	1,759,005	\$ 1,759,005	1,898,678
-	-	-	365,000	\$ 365,000	143,000
<u>\$ 116,352,796</u>	<u>\$ 8,174,621</u>	<u>\$ 2,878,417</u>	<u>\$ 2,124,005</u>	<u>\$ 129,529,839</u>	<u>\$ 121,556,740</u>

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2003 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2002)

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture III	Single Family Drawdown	SINGLE FAMILY PROGRAM FUND TOTALS
OPERATING REVENUES					
Interest Income - Mortgage Loans	\$ 23,797,822	\$ 15,549,972	\$ 137,346	\$ -	\$ 39,485,140
Interest Income - Investments	3,711,455	5,379,685	25,526	341,990	9,458,656
Fee Income	22,903	9,855	-	-	32,758
Federal Financial Assistance	-	-	-	-	-
Net Increase (Decrease) in Fair Value of Investments	-	2,323,607	-	-	2,323,607
Grants and Contributions	750	750	-	-	1,500
Other Income	4,914	4,914	-	-	9,828
Securities Lending Income	-	-	-	-	-
Total Operating Revenues	<u>\$ 27,537,844</u>	<u>\$ 23,268,783</u>	<u>\$ 162,872</u>	<u>\$ 341,990</u>	<u>\$ 51,311,489</u>
OPERATING EXPENSES					
Interest on Bonds	\$ 22,623,582	\$ 15,280,672	\$ 65,678	\$ 341,858	\$ 38,311,790
Servicer Fees	1,377,985	897,014	5,896	-	2,280,895
Contracted Services	263,887	238,971	845	-	503,703
Amortization of Bond Issuance Costs	310,195	134,220	736	-	445,151
General and Administrative	483,914	489,688	-	-	973,602
Securities Lending Expense	-	-	-	-	-
Arbitrage Rebate Expense	48,013	250,228	-	1,729	299,970
Loss on Redemption	564,068	434,380	5,281	-	1,003,729
Total Operating Expenses	<u>\$ 25,671,644</u>	<u>\$ 17,725,173</u>	<u>\$ 78,436</u>	<u>\$ 343,587</u>	<u>\$ 43,818,840</u>
Operating Income (Loss) Before Transfers	1,866,200	5,543,610	84,436	(1,597)	7,492,649
Transfer from Primary Government	-	-	-	-	-
Increase (Decrease) in Net Assets	1,866,200	5,543,610	84,436	(1,597)	7,492,649
Net Assets, Beginning of Year	35,000,181	73,091,411	765,331	3,224	108,860,147
Net Assets, End of Year	<u>\$ 36,866,381</u>	<u>\$ 78,635,021</u>	<u>\$ 849,767</u>	<u>\$ 1,627</u>	<u>\$ 116,352,796</u>

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2003 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2002)

MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	AFFORDABLE REVOLVING LOAN ACCT	Combined Totals (Memorandum Only)	
			FY 2003	FY 2002
\$ 1,277,367	\$ 58,207	\$ 31,687	\$ 40,852,401	\$ 41,605,273
168,572	20,681	7,829	9,655,738	10,224,635
-	197,114	-	229,872	234,504
239,355	-	2,816	242,171	240,140
(23,400)	-	-	2,300,207	589,650
-	-	41,233	42,733	-
36	32	-	9,896	5,167
-	-	-	-	1,437
<u>\$ 1,661,930</u>	<u>\$ 276,034</u>	<u>\$ 83,585</u>	<u>\$ 53,333,018</u>	<u>\$ 52,900,806</u>
\$ 1,093,558	\$ -	\$ -	\$ 39,405,348	\$ 40,521,800
20,493	-	-	2,301,388	2,285,778
39,016	7,216	1,238	551,173	556,904
17,432	-	-	462,583	391,443
205,832	121,969	-	1,301,403	1,277,057
-	-	-	-	1,287
-	-	-	299,970	733,928
34,325	-	-	1,038,054	627,490
<u>\$ 1,410,656</u>	<u>\$ 129,185</u>	<u>\$ 1,238</u>	<u>\$ 45,359,919</u>	<u>\$ 46,395,687</u>
251,274	146,849	82,327	7,973,099	6,505,119
-	-	-	-	500,000
251,274	146,849	82,327	7,973,099	7,005,119
7,923,347	2,731,568	2,041,678	121,556,740	114,551,621
<u>\$ 8,174,621</u>	<u>\$ 2,878,417</u>	<u>\$ 2,124,005</u>	<u>\$ 129,529,839</u>	<u>\$ 121,556,740</u>

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2002)

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture III	Single Family Drawdown
CASH FLOWS FROM OPERATING ACTIVITY				
Receipts for Sales and Services	\$ 22,903	\$ 9,855	\$ -	\$ -
Collections on Loans and Interest on Loans	102,458,905	80,393,448	791,368	-
Cash payments for Loans	(61,420,505)	(23,311,675)	-	-
Federal Financial Assistance Receipts	-	-	-	-
Receipts for Grants and Contributions	750	750	-	-
Payments to Suppliers for Goods and Services	(1,837,551)	(1,320,380)	(6,914)	-
Payments to Employees	(287,328)	(287,328)	-	-
Other Operating Revenues	4,914	4,914	-	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 38,942,088</u>	<u>\$ 55,489,584</u>	<u>\$ 784,454</u>	<u>\$ -</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Payment of Principal and Interest on Bonds and Notes	\$ (82,628,198)	\$ (94,164,374)	\$ (707,910)	\$ (67,556,858)
Proceeds from Issuance of Bonds and Notes	51,668,100	53,092,400	-	39,255,000
Payment of Bond Issuance Costs	(585,154)	(615,727)	-	-
Premium Paid on Refunding Bonds	-	(399,700)	-	-
Good Faith Deposit being Held	-	707,000	-	-
Due to (from) Other Funds	(4,695,747)	4,695,747	-	-
Transfers in (out)	-	-	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>\$ (36,240,999)</u>	<u>\$ (36,684,654)</u>	<u>\$ (707,910)</u>	<u>\$ (28,301,858)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of Capital Assets	\$ -	\$ -	\$ -	\$ -
Net Cash Used by Capital and Related Financing Activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of Investments	\$ (293,158,938)	\$ (308,020,783)	\$ (774,714)	\$ (39,259,590)
Proceeds from Sales or Maturities of Investments	288,575,116	285,642,184	674,225	67,219,590
Interest on Investments	3,735,646	5,377,741	24,757	341,990
Arbitrage Rebate Tax	(236,042)	(430,148)	-	-
Net Cash Provided (Used) by Investing Activities	<u>\$ (1,084,218)</u>	<u>\$ (17,431,006)</u>	<u>\$ (75,732)</u>	<u>\$ 28,301,990</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 1,616,871	\$ 1,373,924	\$ 812	\$ 132
Cash and Cash Equivalents, beginning bal.	\$ 1,422,292	\$ 1,110,811	\$ 21,613	\$ 3,224
Cash and Cash Equivalents, ending bal.	\$ 3,039,163	\$ 2,484,535	\$ 22,425	\$ 3,356

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2002)

SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	AFFORDABLE REVOLVING LOAN ACCT	Combined Totals (Memorandum Only)	
				FY 2003	FY 2002
\$ 32,758	\$ -	\$ 197,114	\$ -	\$ 229,872	\$ 192,133
183,643,721	1,820,454	194,261	1,882	185,660,318	126,111,782
(84,732,180)	-	(274,265)	(183,233)	(85,189,678)	(132,645,941)
-	239,355	-	2,816	242,171	240,140
1,500	-	-	41,233	42,733	-
(3,164,845)	(150,557)	(58,261)	(1,238)	(3,374,901)	(3,142,506)
(574,656)	(114,846)	(67,176)	-	(756,678)	(654,733)
9,828	36	32	-	9,896	5,267
<u>\$ 95,216,126</u>	<u>\$ 1,794,442</u>	<u>\$ (8,295)</u>	<u>\$ (138,540)</u>	<u>\$ 96,863,733</u>	<u>\$ (9,893,858)</u>
\$ (245,057,340)	\$ (4,674,588)	\$ -	\$ -	\$ (249,731,928)	\$ (153,774,013)
144,015,500	-	-	-	144,015,500	89,180,000
(1,200,881)	-	-	-	(1,200,881)	(591,555)
(399,700)	-	-	-	(399,700)	(421,700)
707,000	-	-	-	707,000	521,900
-	-	-	-	-	-
-	-	-	-	-	500,000
<u>\$ (101,935,421)</u>	<u>\$ (4,674,588)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (106,610,009)</u>	<u>\$ (64,585,368)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (49,695)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (49,695)</u>
\$ (641,214,025)	\$ (7,789,000)	\$ -	\$ -	\$ (649,003,025)	\$ (406,412,602)
642,111,115	10,430,312	-	-	652,541,427	471,073,232
9,480,134	183,561	20,681	7,829	9,692,205	10,545,071
(666,190)	-	-	-	(666,190)	(172,914)
<u>\$ 9,711,034</u>	<u>\$ 2,824,873</u>	<u>\$ 20,681</u>	<u>\$ 7,829</u>	<u>\$ 12,564,417</u>	<u>\$ 75,032,787</u>
\$ 2,991,739	\$ (55,273)	\$ 12,386	\$ (130,711)	\$ 2,818,141	\$ 503,866
\$ 2,557,740	\$ 224,415	\$ 1,614,513	\$ 541,678	\$ 4,938,346	\$ 4,434,480
\$ 5,549,479	\$ 169,142	\$ 1,626,899	\$ 410,967	\$ 7,756,487	\$ 4,938,346

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2002)

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture III	Single Family Drawdown
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income	\$ 1,866,200	\$ 5,543,610	\$ 84,436	\$ (1,597)
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:				
Depreciation	17,897	21,570	-	-
Amortization	874,263	572,146	6,017	-
Interest Expense	22,623,582	15,277,126	65,678	341,858
Interest on Investments	(3,711,455)	(5,379,685)	(25,526)	(341,990)
Arbitrage Rebate Tax	48,013	250,228	-	1,729
Bad Debt Allowance	-	-	-	-
(Incr) Decr in Fair Value of Investments	-	(2,323,607)	-	-
Change in Assets and Liabilities:				
Decr (Incr) in Mortgage Loans Receivable	17,103,416	41,592,338	653,797	-
Decr (Incr) in Other Assets	(37,282)	298,913	3,924	-
Incr (Decr) in Accounts Payable	(18,767)	(7,439)	(173)	-
Incr (Decr) in Deferred Reservation & Disc. Fees	173,550	(358,287)	(3,699)	-
Incr (Decr) in Compensated Absences Payable	2,671	2,671	-	-
Net Cash Provided by (Used for) Operating Activities	<u>\$ 38,942,088</u>	<u>\$ 55,489,584</u>	<u>\$ 784,454</u>	<u>\$ -</u>

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2002)

SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	AFFORDABLE REVOLVING LOAN ACCT	Combined Totals (Memorandum Only)	
				FY 2003	FY 2002
\$ 7,492,649	\$ 251,274	\$ 146,849	\$ 82,327	\$ 7,973,099	\$ 6,505,119
39,467	328	328	-	40,123	51,467
1,452,426	51,757	-	-	1,504,183	1,018,932
38,308,244	1,093,558	-	-	39,401,802	40,521,800
(9,458,656)	(168,572)	(20,681)	(7,829)	(9,655,738)	(10,224,786)
299,970	-	-	-	299,970	733,928
-	-	-	-	-	50,000
(2,323,607)	23,400	-	-	(2,300,207)	(589,650)
59,349,551	540,979	(107,918)	(170,679)	59,611,933	(48,449,705)
265,555	2,372	(29,256)	(42,359)	196,312	(214,553)
(26,379)	(4,172)	2,571	-	(27,980)	208,735
(188,436)	(773)	-	-	(189,209)	473,277
5,342	4,291	(188)	-	9,445	21,578
<u>\$ 95,216,126</u>	<u>\$ 1,794,442</u>	<u>\$ (8,295)</u>	<u>\$ (138,540)</u>	<u>\$ 96,863,733</u>	<u>\$ (9,893,858)</u>

Appendix B

Participating Lending Offices

<u>City</u>	<u>Lender Name</u>	<u>City</u>	<u>Lender Name</u>
Absarokee	United Bank of Absarokee Yellowstone Bank	Bozeman (cont)	Mann Mortgage Big Sky Western Heritage Bank
Anaconda	Wells Fargo Home Mortgage Glacier Bank	Broadus	Rocky Mountain Bank
Baker	The Bank of Baker Wells Fargo Home Mortgage	Browning	Native American Bank Yellowstone Bank
Belgrade	First Interstate Bank Valley Bank of Belgrade First Security Bank	Butte	American Federal Savings Bank First National Bank Glacier Bank U.S. Bank
Big Sandy	Wells Fargo Home Mortgage	Chester	Heritage Bank Wells Fargo Home Mortgage
Big Sky	Intermountain Mortgage Big Sky Western	Chinook	Wells Fargo Home Mortgage Western Bank of Chinook
Big Timber	Action Mortgage American Bank Citizens State Bank & Trust Intermountain Mortgage	Choteau	The Citizens Bank of Choteau
Bigfork	Flathead Bank of Bigfork Glacier Bank Rocky Mountain Bank	Circle	Wells Fargo Home Mortgage
Billings	Action Mortgage Countrywide Home Loans Inc. First Citizens Bank of Billings First Interstate Bank GMAC Mortgage Intermountain Mortgage Little Horn State Bank Mann Mortgage Rocky Mountain Bank Stockman Bank Streeter Brothers Mortgage U.S. Bank Wells Fargo Home Mortgage Western Security Bank Yellowstone Bank	Clancy	First Boulder Valley Bank
		Clyde Park	First National Bank of Rockies
		Colstrip	First Interstate Bank
		Columbia Falls	First Citizens Glacier Bank
		Columbus	United Bank of Absarokee Yellowstone Bank
		Conrad	Stockman Bank Yellowstone Bank
		Corvallis	Citizens State Bank
		Culbertson	First Community Bank
Boulder	First Boulder Valley Bank	Cut Bank	First Interstate Bank Glacier Bank Mann Mortgage Stockman Bank
Bozeman	Action Mortgage American Bank American Federal Savings Bank First Interstate Bank First Security Bank GMAC Mortgage U.S. Bank Montana Mortgage Company Mountain West Bank Wells Fargo Home Mortgage	Deer Lodge	Peoples Bank Pioneer Federal Savings
		Dillon	Wells Fargo Home Mortgage Pioneer Federal Savings State Bank and Trust
		East Helena	Valley Bank

Participating Lending Offices

<u>City</u>	<u>Lender Name</u>	<u>City</u>	<u>Lender Name</u>
Emigrant	Bank of the Rockies	Helena	American Federal Savings Bank First Interstate Bank
Ennis	First Madison Valley Bank Intermountain Mortgage		Glacier Bank Mann Mortgage Mountain West Bank Valley Bank Wells Fargo Home Mortgage
Eureka	First Interstate Glacier Bank The First National Bank	Hot Springs	Valley Bank
Forsyth	First State Bank Wells Fargo Home Mortgage	Hysham	Stockman Bank
Fort Benton	Heritage Bank First Security Bank	Jordan	Garfield County Bank
Frenchtown	Clark Fork Valley Bank	Kalispell	Bankwest NA First Interstate Bank Glacier Bank GMAC Mortgage Mann Mortgage Montana First National Bank Montana Mortgage Company Three Rivers Bank Valley Bank of Kalispell Wells Fargo Home Mortgage Mountain West Bank Intermountain Mortgage Heritage Bank
Gardiner	First Interstate Bank		
Geraldine	Heritage Bank		
Glasgow	First Community Bank		
Glendive	Community First Bank Stockman Bank Heritage Bank		
Great Falls	Countrywide Home Loans First Interstate Bank Heritage Bank Mountain West Bank U.S. Bank Wells Fargo Home Mortgage Mann Mortgage Stockman Bank	Laurel	First Security Bank Western Security Bank Yellowstone Bank
		Lewistown	Basin State Bank First National Bank Wells Fargo Home Mortgage Valley Bank Wells Fargo Home Mortgage
Hamilton	Citizen's State Bank First Interstate Bank Glacier Bank Heritage Bank	Libby	First National Bank Glacier Bank Heritage Bank
Hardin	First Interstate Bank Little Horn State Bank Western Security Bank	Livingston	Action Mortgage American Bank First Interstate Bank of Commerce First National Bank of Rockies Wells Fargo Home Mortgage
Harlem	Rocky Mountain Bank		
Harlowton	Continental National Bank	Lolo	Bitterroot Valley Bank
Havre	First Security Bank Heritage Bank Wells Fargo Home Mortgage Independence Bank Stockman Bank	Malta	First Security Bank Stockman Bank
		Manhattan	Manhattan State Bank

Participating Lending Offices

<u>City</u>	<u>Lender Name</u>	<u>City</u>	<u>Lender Name</u>
Miles City	First Interstate Bank Stockman Bank U.S. Bank	Sheridan	Ruby Valley National Bank
Missoula	Action Mortgage First Interstate Bank First Security Bank GMAC Mortgage Intermountain Mortgage Heritage Bank Mann Mortgage Missoula Federal Cr Union Montana Mortgage Company Mountain West Bank Wells Fargo Home Mortgage	Sidney	First Bank Wells Fargo Home Mortgage Stockman Bank
		St. Ignatius	Lake County Bank
		Stanford	Basin State Bank
		Stevensville	Rocky Mountain Bank
		Superior	Wells Fargo Home Mortgage
Montana City	First Boulder Valley Bank	Terry	Stockman Bank
Pablo	Community Bank of Pablo	Thompson Falls	Valley Bank of Ronan First State Bank
Plains	Rocky Mountain Bank	Three Forks	Manhattan State Bank
Plentywood	Rocky Mountain Bank Stockman Bank	Townsend	American Federal Savings Bank State Bank of Townsend
Polson	First Citizens Bank Glacier Bank Mann Mortgage First Interstate Bank Ronan State Bank	Troy	First National Bank of Libby
		Twin Bridges	Ruby Valley National Bank
		Valier	Wells Fargo Home Mortgage
Red Lodge	First Interstate Bank Wells Fargo Home Mortgage	West Yellowstone	First Interstate Bank First Security Bank
Richey	Stockman Bank	White Sulphur Spr	First National Bank of the Rockies
Ronan	Ronan State Bank Valley Bank of Ronan	Whitefish	American Bank First Interstate Bank First National Bank Glacier Bank Mann Mortgage
Roundup	First Security Bank Wells Fargo Home Mortgage		
Rudyard	Wells Fargo Home Mortgage	Whitehall	Rocky Mountain Bank
Scobey	Citizens State Bank	Wibaux	Stockman Bank
Shelby	Heritage Bank Wells Fargo Home Mortgage	Wolf Point	First Community Bank Western Bank of Wolf Point
		Worden	Stockman Bank

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